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Equity Research
Global

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Global Equity Strategy

US dollar: The start of a long-term bear market – relative impacts

Investment Strategy | Strategy

We have been high-conviction dollar bears since early May and expect the bear market to continue for a long time because:

- The much more severe deterioration in the fiscal position of the US vs that of the euro area and the Fed's commitment to unlimited QE requires much more monetary printing in the US than the euro area, which leads to a weaker US dollar.
- The EU's recovery fund (along with other measures) establishes the euro as a reserve currency; 20% of global FX reserves are in the euro (compared with 29% in 2009), while 62% of global FX reserves are in dollars.
- The euro area current account surplus is expected to be 5% above that of the US for 2020 (IMF forecast); the last time this happened, the euro was 20% more expensive vs PPP. The 'J-curve' effect means that it takes 6 to 9 months for currency moves to lead to an improvement in the trade balance.
- Real rate differentials have closed and are no longer supportive of the dollar.
- Lack of policy response to stop the dollar weakness: The Fed is not going to raise rates to protect the dollar (with core PCE of just 1%) and the ECB appears very reluctant to cut rates (it did not do so in March). Moreover, with the risk of President Trump potentially labelling countries currency manipulators, central banks may be reluctant to intervene too quickly.
- Historically, dollar bear markets have lasted for 9 to 10 years. Meanwhile, US net external debt is 55% of GDP compared with 9% in 2007.

We think the yen, sterling and euro should follow a similar path against the dollar:

Impact: Dollar weakness is positive for global GDP (as 62% of FX reserves and 80% of global trade is in dollars), as the weaker dollar eases global monetary conditions and leads to higher dollar commodity prices (given that only 20% of oil demand and 8% of copper demand comes from the US). Regionally, GEM is a major beneficiary at a time when GEM currencies look unusually cheap. GEMs have $5.4trn of dollar debt (we highlight the highest exposures are the Argentine government and Turkish and Chilean corporates). A weaker dollar also leads to a rise in GEM FX reserves, which has yet to be sufficiently reflected in GEM equity outperformance. We highlight a weak dollar is clearly challenging for the UK, Japan and Europe (in descending order) in local currency terms, but in dollar terms Europe outperforms on almost all occasions (UK 90% of the time) and Japan only 40% of the time.

Relative impacts: We favour exposure to domestic Europe (P&C and Utilities). Budget airlines historically have benefited the most from a strong euro, while big cap pharma has seen the biggest negative impact. We would look for indirect GEM exposure (LafargeHolcim, Schneider and Danone) and companies with more dollar costs than revenues (ABF and Electrolux) and avoid the opposite (e.g. Epiroc and Richemont). A weaker dollar reinforces our overweight of small caps in the UK and Europe.

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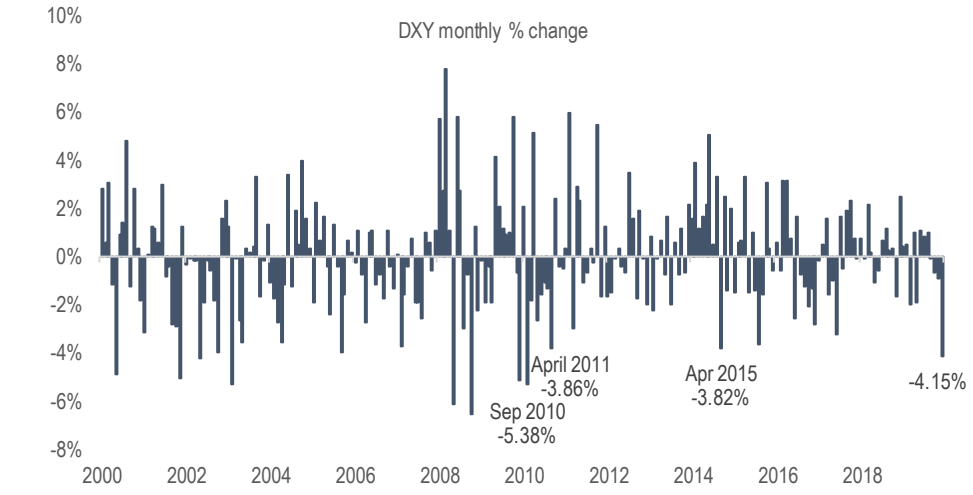
Why we stay dollar bears and implications

Why we stay bearish on the US dollar

In July, the dollar saw its biggest monthly depreciation since September 2010 and we expect the USD to weaken further to EURUSD 1.25 by the end of the year (in line with the CS house view of fair value of EURUSD 1.26 – see Equilibrium exchange rates: CS fair value update for Q2 2020). In 2010, the USD also continued to weaken by 7% over the subsequent seven months.

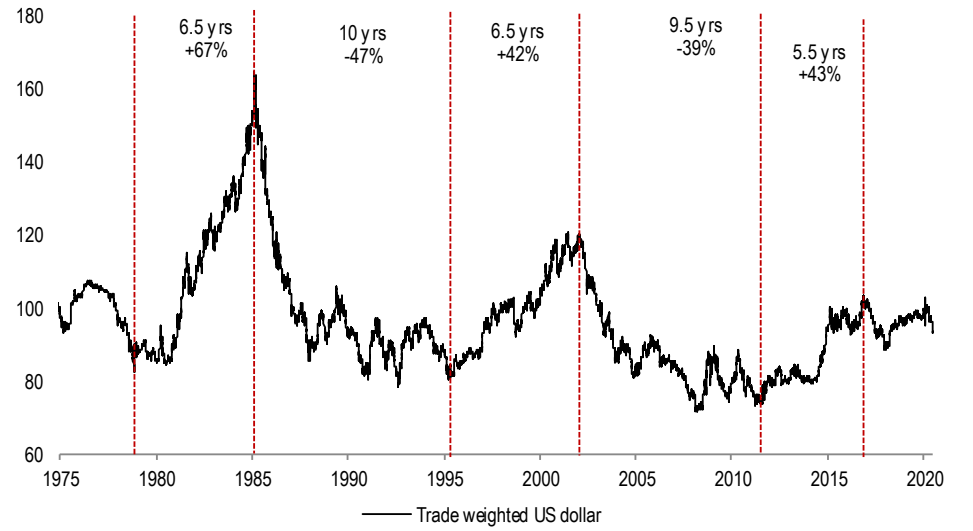
Figure 1: Monthly changes in DXY



Source: Refinitiv, Credit Suisse research

Historically the dollar has tended to have bull markets lasting no longer than seven years (if the dollar had rallied this year, it would have been the ninth year of a bull market), followed by very long-term bear markets. We can see the magnitude of such moves – so far the dollar is down 9% from its peak in March compared with a typical bear market decline of 40-50% and six years. However, we would expect the bear market in the dollar to be of a smaller magnitude this time around (not least because it never became as overvalued).

Figure 2: Dollar bull markets have tended to last no longer than seven years



Source: Refinitiv, Credit Suisse research

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The euro versus the US dollar

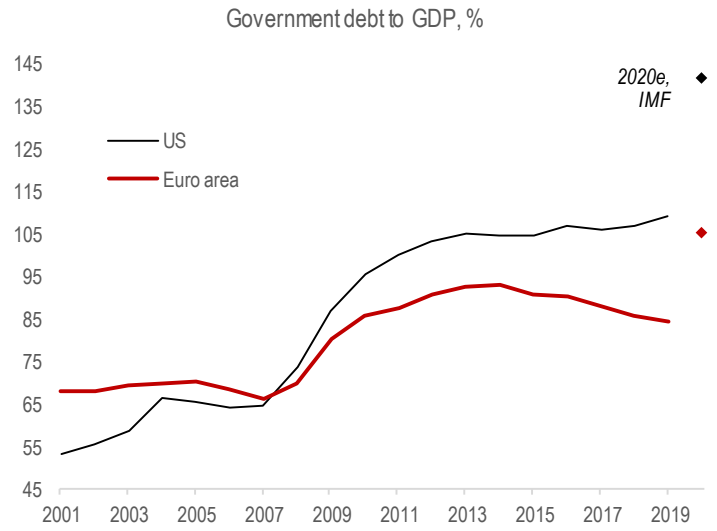
We see the following arguments for a weaker US dollar:

1. **The Fed will have to print much more than the ECB**

The Fed is likely to print significantly more money than the ECB. This is partly because the deterioration in the US fiscal position is much greater than that of Europe and partly because of the Fed's open-ended commitment to QE.

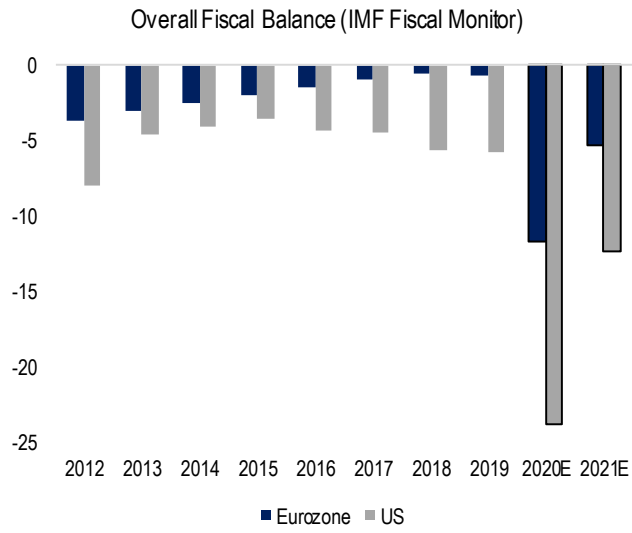
The US budget deficit and debt to GDP have deteriorated very sharply relative to that of EU. At the end of 2019, the US government's debt to GDP was 24.6pp higher than that of euro area. It is expected to be 43p.p. higher in 2021, with the budget deficit as a percentage of GDP projected to be 23.8% as of the end of this year, double that of euro area.

Figure 3: The US is emerging from the crisis with a much higher level of debt



Source: Refinitiv, IMF, Credit Suisse research

Figure 4: The US is expected to run a much bigger deficit than Europe



Source: Refinitiv, Credit Suisse research

Credit Suisse economists believe that the Fed will not allow bond yields to rise and if necessary will commit to some form of yield curve control with a target on 3- to 5-year yields (see *US Economy Notes: How to pay for it without inflation*, 13 Jul). This means the Fed will most likely have to buy much more than the ECB. If the Fed expands its balance sheet more than the ECB, the dollar tends to weaken (so far this year, the Fed has expanded its balance sheet by 13% of GDP compared to 14% by the ECB).

We think that going forward, the Fed will have to print more than the ECB. Since May it has funded only 20% of net issuance and we suspect this will rise.

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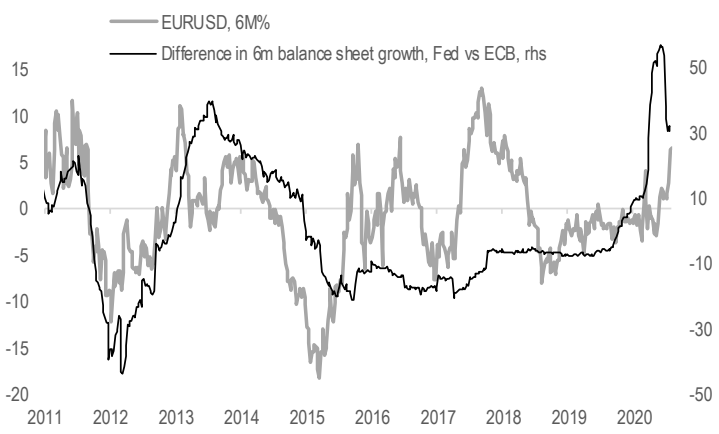
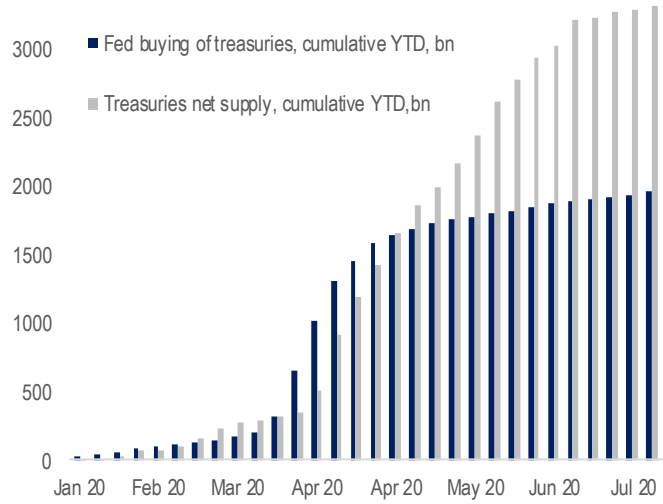
Figure 5: When the Fed increases its balance sheet by more than the ECB, the Euro ends to strengthen



Source: Refinitiv, Credit Suisse research

Figure 6: Fed buying of treasuries has lagged net supply very significantly recently, which will force the Fed to buy more

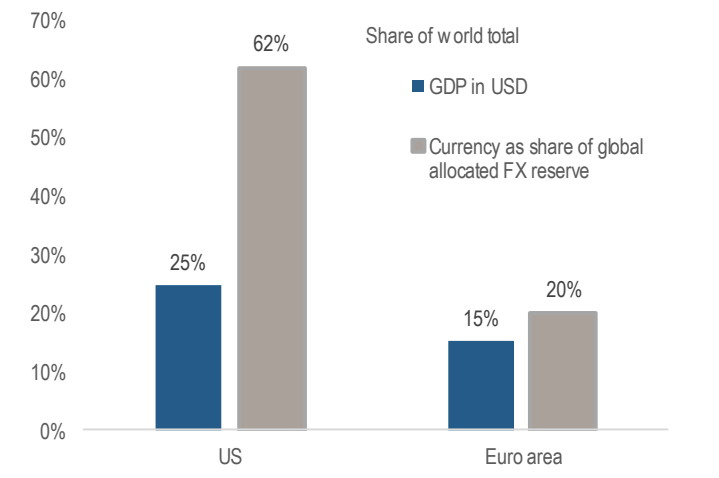


Source: Refinitiv, Bloomberg Finance L. P., Credit Suisse research

2. The euro could become more of a reserve currency

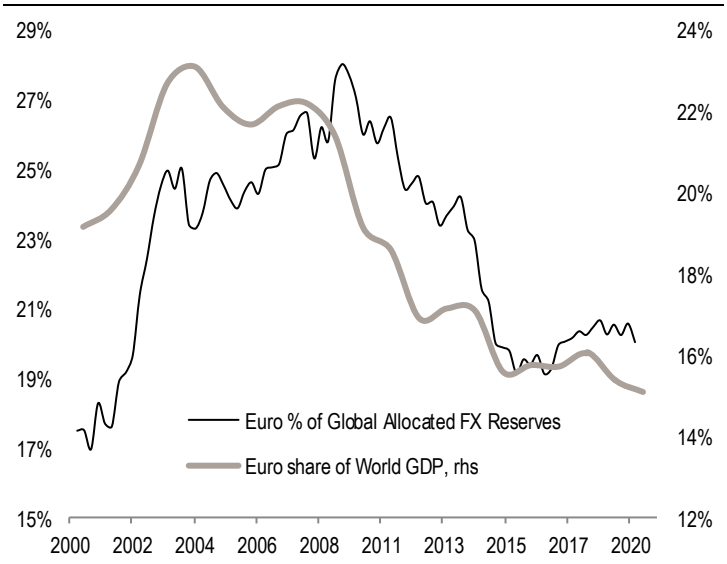
We think the huge changes in European policy (i.e. ECB buying, EU Recovery Fund and German fiscal easing) suggest that the euro could become more of a reserve currency. Currently just 20% of FX reserves are in the euro compared with its GDP weight of 15% (while 62% of FX reserves are in the dollar). The euro made up 29% of global FX reserves in 2009.

Figure 7: Euro as % of allocated FX reserves is much lower than USD



Source: Refinitiv, Credit Suisse research

Figure 8: Euro as % of allocated reserves vs GDP share



Source: Refinitiv, Credit Suisse research

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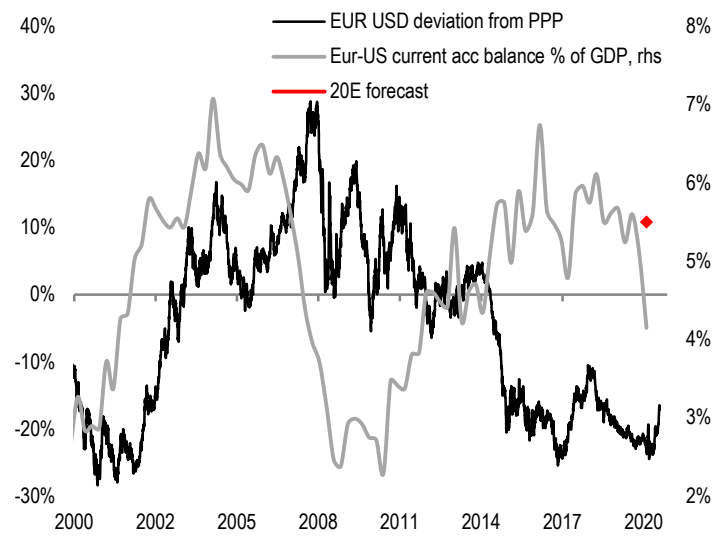
3. Europe's larger current account surplus is positive for the euro

The euro area is running a significantly larger current account surplus relative to the US (5p.p. higher on IMF estimates for 2020). The last time the euro current account surplus was 5% above that of the US, the euro was nearly 20% more expensive.

4. Simple valuation

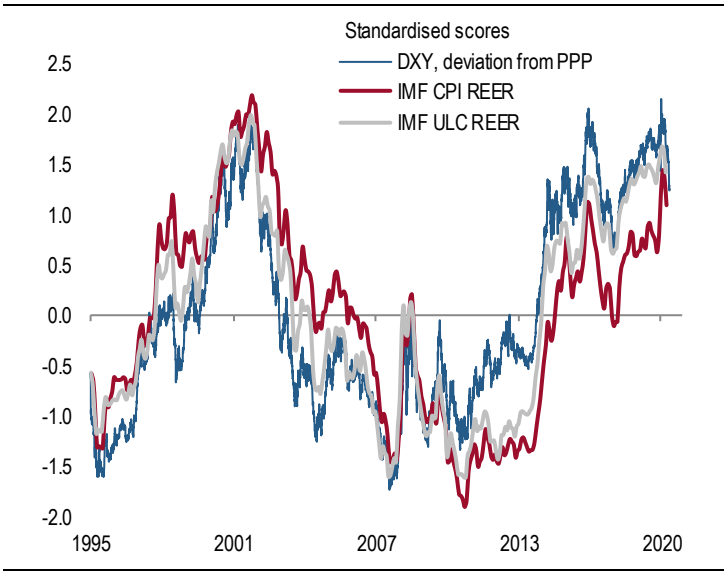
The dollar is 14% above PPP and as shown in the charts below, it typically troughs when it is cheap.

Figure 9: The Eurozone current account surplus is forecast to stay 5% above that of the US



Source: Refinitiv, IMF, Credit Suisse research

Figure 10: The dollar remains expensive in aggregate



Source: Refinitiv, Credit Suisse research

5. Real rate differentials are no longer dollar-supportive

The gap between real rates in the US and the euro area has completely closed for the first time since 2016 and the differential is now consistent with a weaker dollar.

6. The scale of US net indebtedness

While it is a slow-burning issue, US net foreign debt has hit a record level of 55% of GDP.

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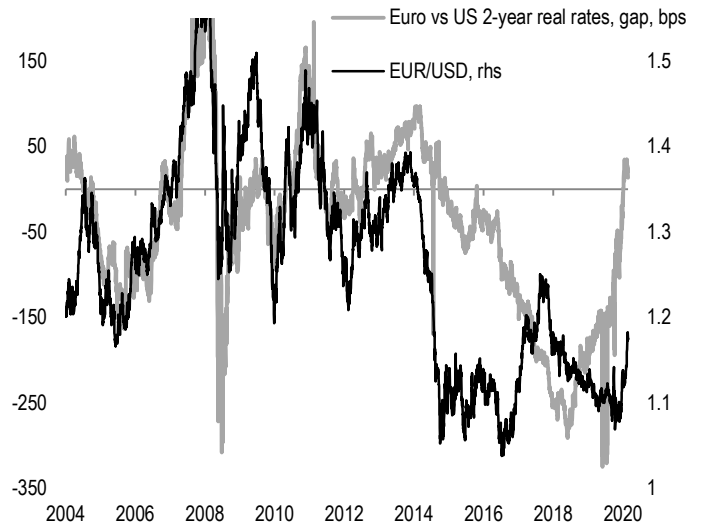
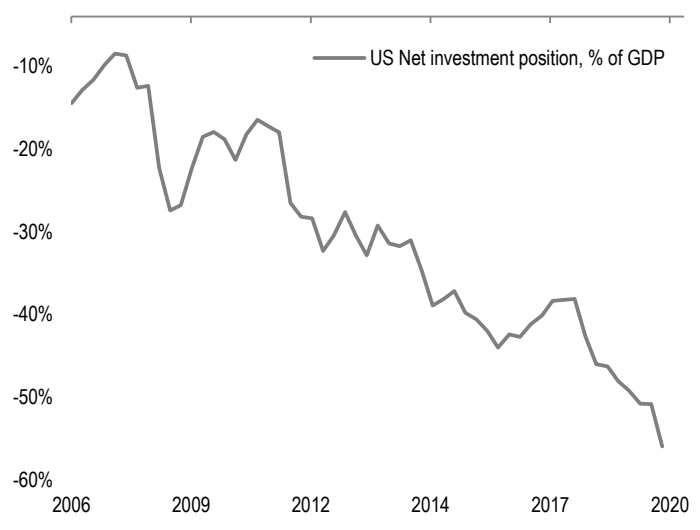
Figure 11: Real rate differentials vs EUR/USD



Source: Refinitiv, Credit Suisse research

Figure 12: The US net investment position has hit -55% of GDP

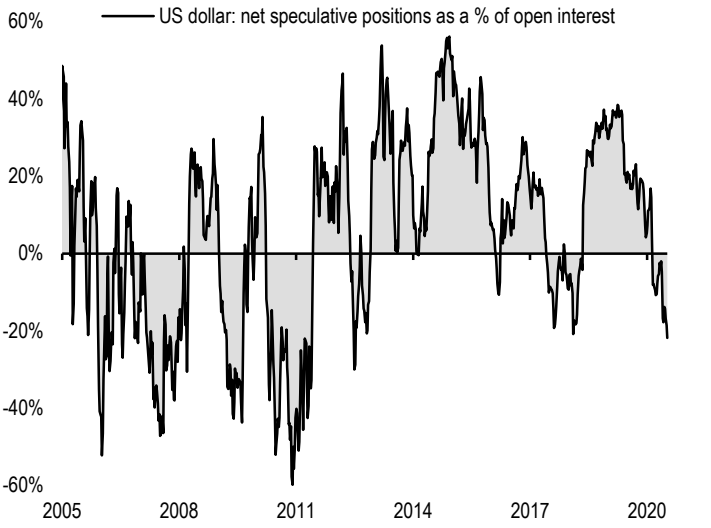


Source: Refinitiv, Credit Suisse research

7. Tacticals

Net speculative positions have fallen to their most negative level since 2012, but historically the dollar has continued to weaken when net speculative positions reached similar levels.

Figure 13: US dollar net speculative positioning



Source: Refinitiv, Credit Suisse research

Figure 14: Dollar historically has weakened when net speculative positions reached this level

Date	USD TWI perf when its positioning reaches near current oversold levels	
	3 month	6 month
Average	-1.0%	-1.9%
Typical perf	0.0%	0.1%
% Fall	58%	75%

Source: Refinitiv, Credit Suisse research

The euro is overbought, but that did not prevent the euro from rising further when price momentum hit this level historically (at least on a three-month view). Nearly two-thirds of the time, the euro has continued to rise on a three-month view.

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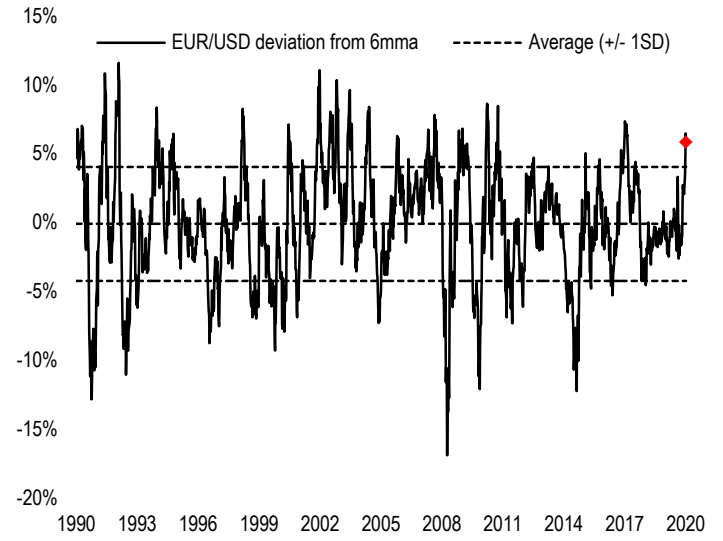
Figure 15: EUR/USD price momentum



Source: Refinitiv, Credit Suisse research

Figure 16: It hasn't been an issue for euro performance historically

Date	EUR/USD perf when PM rises to current levels		
	1 Month	3 month	6 month
Average	0.3%	0.7%	-0.7%
Typical perf	0.0%	0.1%	0.2%
% rise	59%	65%	53%

Source: Refinitiv, Credit Suisse research

When would policymakers try to stop USD weakness?

There are two ways central banks could see the USD weakness as a threat. First, the Fed might decide USD weakness has gone too far, threatening its inflation target. Second, the ECB or the BoJ could decide that the strength of their currency is causing too much economic damage and intervene aggressively or even cut rates.

However, we see a period of benign neglect on the dollar (from a policy point of view) lasting much longer than normal owing to:

- **Low US inflation:** US inflation remains far below target (core PCE is 1%), with the Fed suggesting that it will allow inflation at a minimum to overshoot its target by a similar amount to which it has undershot. This implies they would accommodate at least 2.5-3% core PCE. Moreover, imports in the US are only 14% of GDP (which is relatively low by global standards) and up to 90% of imports are dollar-denominated. 10% off the dollar trade-weighted adds only 0.2% to total core PCE one year later.
- **BoJ and ECB action might do more harm than good:** The ECB and the BoJ have so far been very quiet on their currency strength. In fact, the ECB by its actions in March (when it did not cut rates despite forecasting the worst recession on record) very clearly indicated that there seems to be a huge pain threshold before it would cut rates further. We believe central banks are now realizing that NIRP is counterproductive (it leads to asset bubbles that can hurt growth, exacerbates inequality, hurts banks' profitability and ability to lend, and creates 'zombie capitalism', where firms without viable business models are kept alive with cheap credit).

  Additionally, any efforts to cap currency strength could potentially lead President Trump to label a country a currency manipulator.

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What normally stops a long-term currency move?

We believe only three factors could prevent a structural bear market for the USD:

- *Extreme undervaluation* (but the dollar is overvalued);
- *Policy response* (as discussed above, this is unlikely until moves become much greater);
- *A sharp adjustment in the current account.* This occurs either because the US has a worse growth outlook than elsewhere (causing imports to fall disproportionately) or because the currency moves eventually lead to an improvement in the respective trade and current account balance.

  We think US policy will keep US GDP on a similar trajectory to Europe (and thus imports are unlikely to adjust by much).

  The problem with the current account adjustment is that:

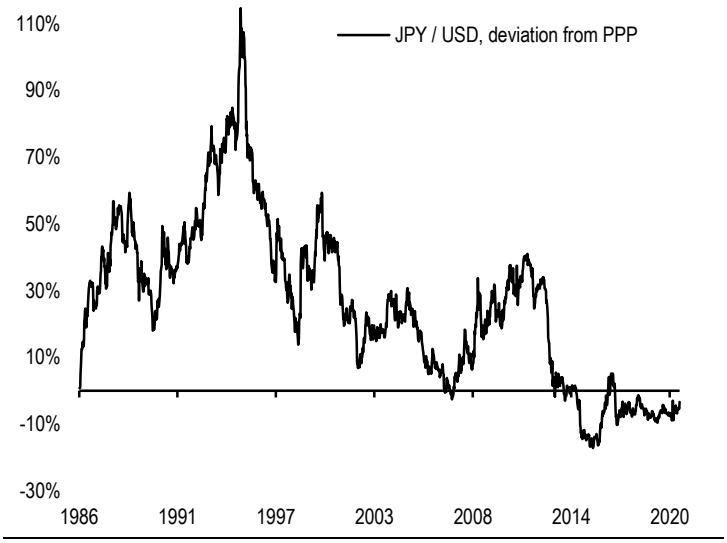
  - We have the negative impact of shale. The slowdown in US shale because of the fall in the oil price limits the improvement in the trade account we had been seeing (US oil production has fallen from 12.9mbd in 2019 to 10mbd in May, according to the EIA).
  - There is the 'J-curve' effect; i.e. it takes some time for export and import volumes to adjust to prices. Krugman (1991), for example, has estimated this lag to be about two years in the US for 1985-1987 dollar depreciation. Thus, the current account tends to deteriorate initially as imports are getting more expensive relative to exports before it later improves.

What about yen and sterling?

JPY

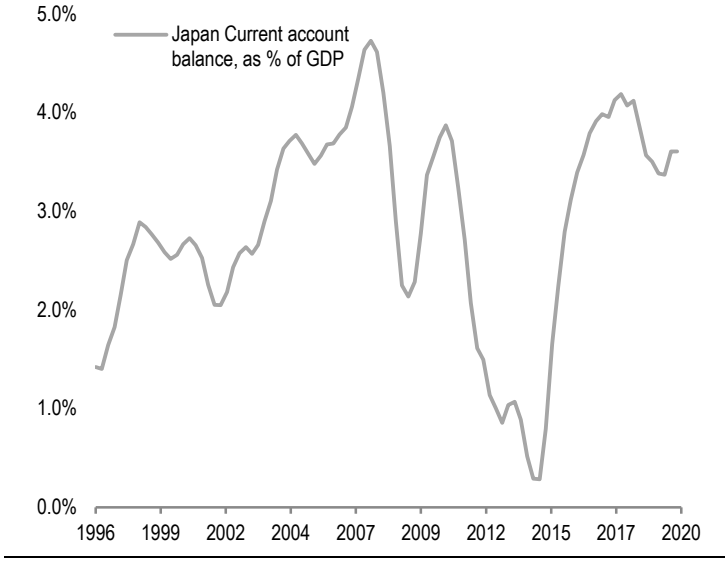
We find the yen cheap on PPP with a high current account surplus, so we can see the yen following the path of the euro.

Figure 17: The yen is almost back to its cheapest level on PPP, now rising



Source: Refinitiv, Credit Suisse research

Figure 18: Japan's current account has moved to a surplus of 3.6% of GDP



Source: Refinitiv, Credit Suisse research

The yen also strengthens when US real rates fall. We continue to believe that the 10-year TIPS yield will fall to minus 2%.

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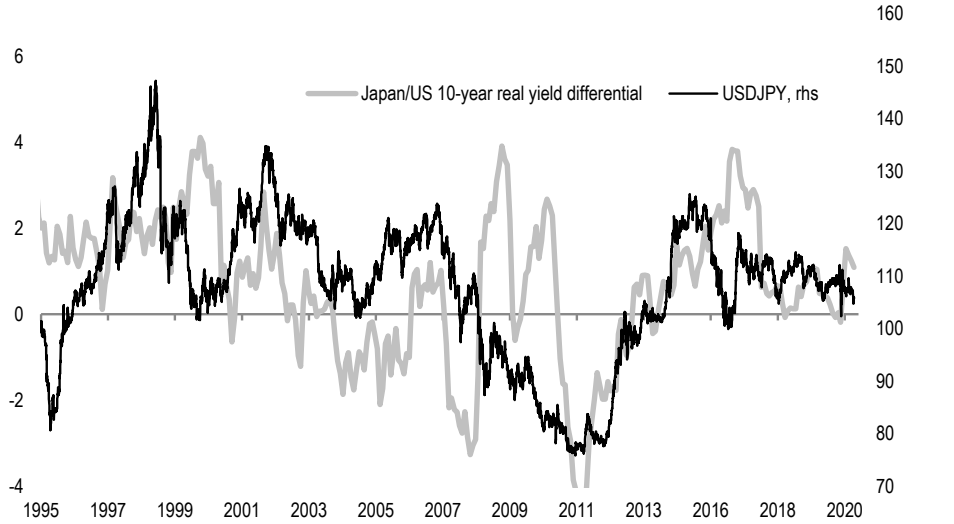
Figure 19: As the real yield differential declines, the yen should continue to strengthen



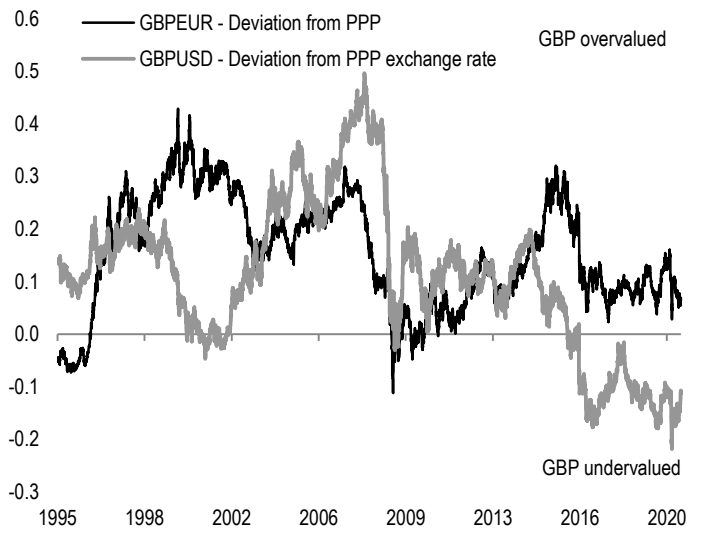
Source: Refinitiv, Credit Suisse research

Sterling

We are relatively bullish on sterling because:

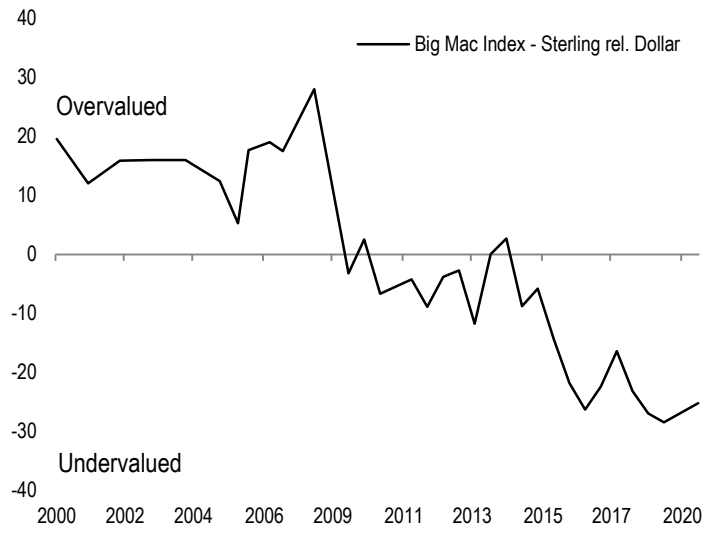
- Sterling remains unusually cheap on both PPP and the Big Mac Index.

Figure 20: Sterling looks cheap against the USD on PPP…



Source: Refinitiv, Credit Suisse research

Figure 21: …and on the Big Mac index



Source: Refinitiv, Credit Suisse research

- FDI has already collapsed and is now picking up again. Speculators are mildly short of sterling.

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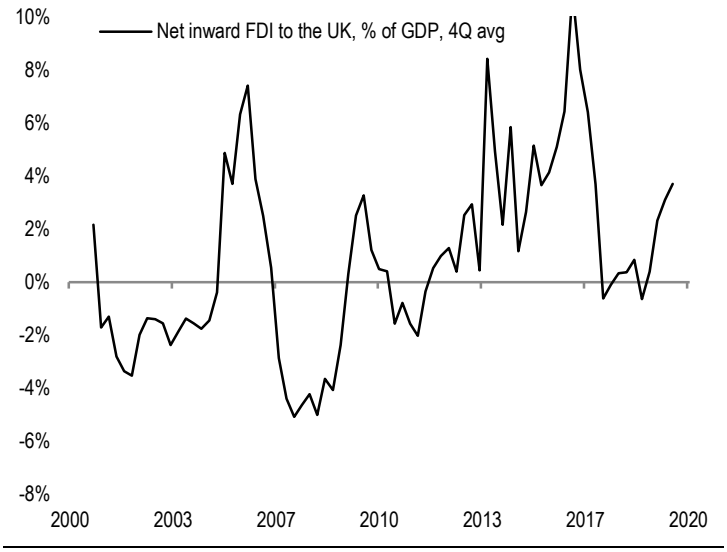
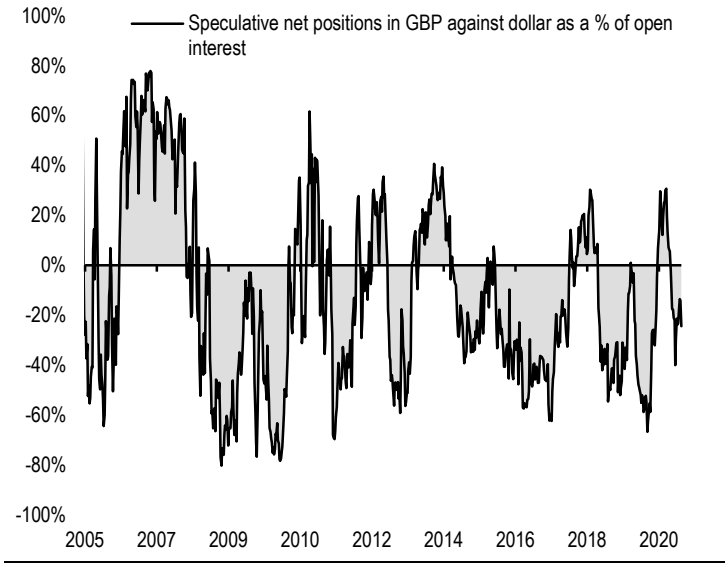
Figure 22: FDI to the UK has already fallen to very low levels



Source: Refinitiv, Credit Suisse research

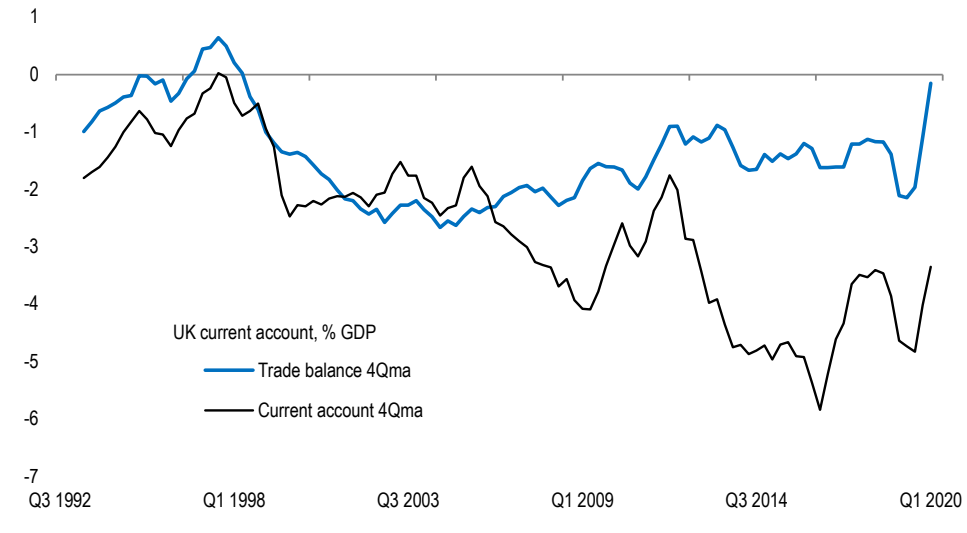
Figure 23: Investors are mildly short sterling



Source: Refinitiv, Credit Suisse research

- Sterling should be helped by a European recovery (43% of UK exports go to the EU) but has the constraint of a current account deficit that continues to run at 3.3% of GDP and Brexit trade negotiations. We are a little more optimistic on the latter (see Appendix), but on the whole see sterling moving in line with the euro.

Figure 24: The current account deficit remains large in the UK



Source: Refinitiv, Credit Suisse research

Impact of dollar weakness

Positive for growth

A weaker dollar is good for global growth, with 80% of global trade and 62% of FX reserves dollar-denominated. Moreover, the US can accommodate any inflationary consequences of dollar weakness while the currency strength elsewhere, particularly in GEM, leads to monetary easing.

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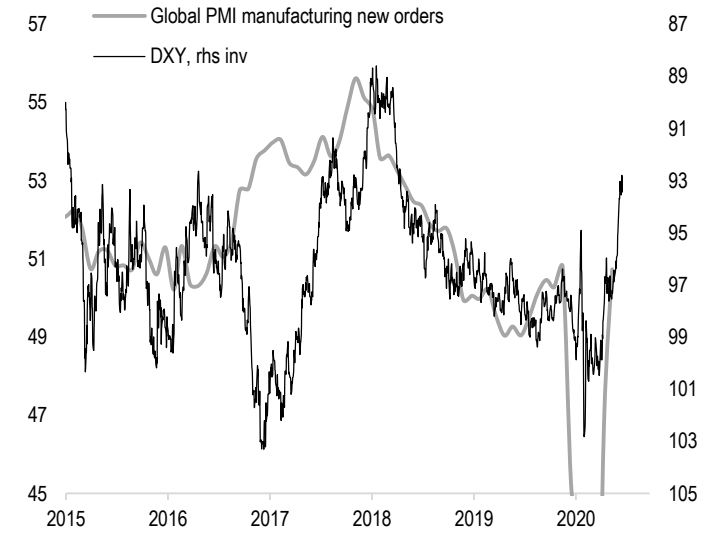
We believe that the weak dollar stands in contrast to the GFC, when post May 2011 the dollar strengthened, which partly curtailed the recovery in global growth. We can see that quite often a weaker dollar and a rise in global activity coincide.

Positive for inflation expectations

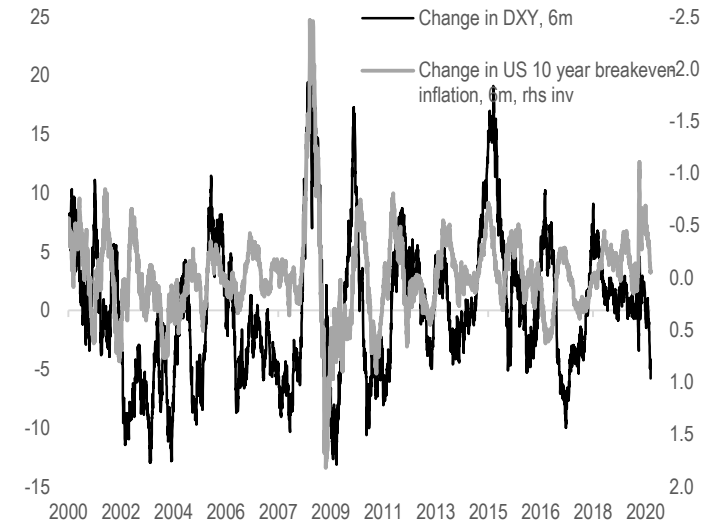
Partly for the reasons stated above, we believe that a weaker dollar will result in a rise in inflation expectations. This further supports our belief that investors should invest in real assets (UK and US homebuilders, German residential real estate, mining, cement, and companies with CPI-linked pricing formulae often found in concessions and utilities). For more details, see Long-term inflationary consequences and what to do.

Figure 25: A weaker dollar tends to lead to a recovery in global activity



Source: Company data, Credit Suisse estimates

Figure 26: We can see inflation expectations rising with the falling dollar



Source: Company data, Credit Suisse estimates

Our preference is for real asset plays that are cyclical, cheap, not technically disrupted, benefit from some help from government policy, and have a formal CPI link (e.g. regulated utilities). We show some of our preferred areas below.

Figure 27: Our areas of interest

European Value - areas of interest	Cheap	Not technically disrupted	Plays on China	Real asset plays	Aided by Gov. Policy	Formal CPI link
Homebuilders	x	x		x	x	
Mining	x	x	x	x	x	
Concessionaires	x	x		x	x	x
Packaging & Trees	x	x		x		
Cement	x	x	x	x	x	

Source: Credit Suisse research

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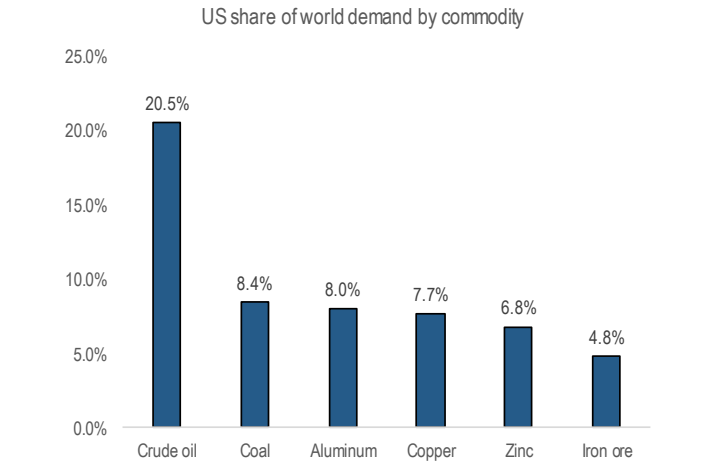
Commodity prices

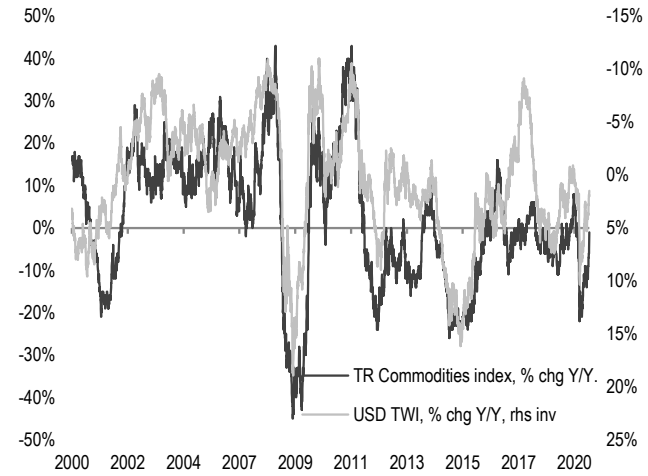
A weaker US dollar is clearly positive for commodity prices. This is because only about 5-8% and 20% of demand for mining commodities and oil, respectively, comes from the US, yet commodity prices are mostly dollar-denominated. Thus a weaker dollar makes commodities cheaper in local currencies for non-US buyers, supporting commodity demand.

Figure 28: US share of global demand



Source: Refinitiv, World Bank, Credit Suisse research

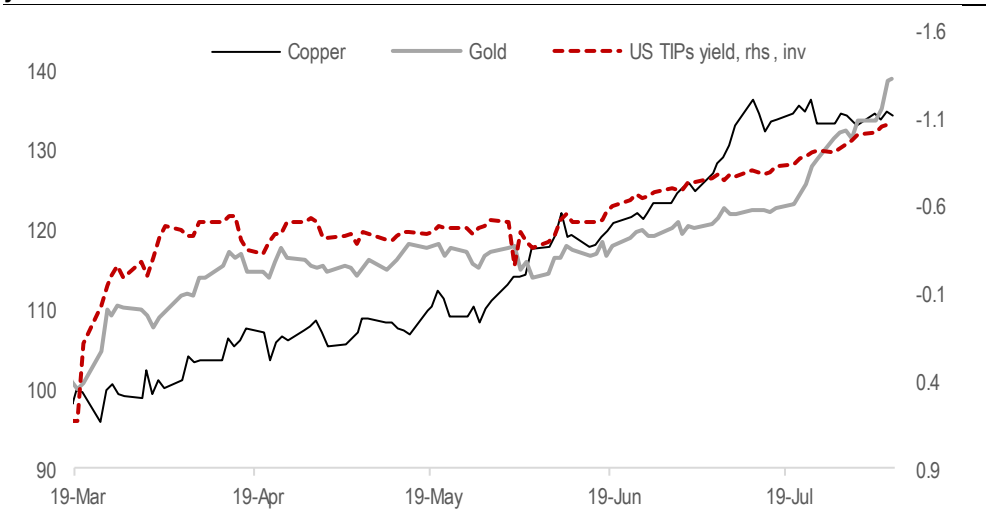
Figure 29: USD weakness tends to correlate with commodity price strength



Source: Refinitiv, Credit Suisse research

So far, all we have seen in commodities is a generalized rise (the ratio of gold to copper, for example, has been unchanged) since March, reflecting a fall in real bond yields.

Figure 30: Rising commodity prices have been largely reflecting a fall in real bond yields since March



Source: Company data, Credit Suisse estimates

This supports our overweight of European mining companies, which we like for the following reasons (for more details, see *COVID-19: Long term inflationary consequences and what to do*, 2 Jul):

- *An attractive valuation* – mining's FCF yield is very high (15% on spot price, 11% on base case prices for 2021 using maintenance capital spending). If we use spot prices and growth capex, the FCF yield in 2021 is 10.2% post working capital adjustment.

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Figure 31: Free cash flow yields for the sector remain reasonably attractive

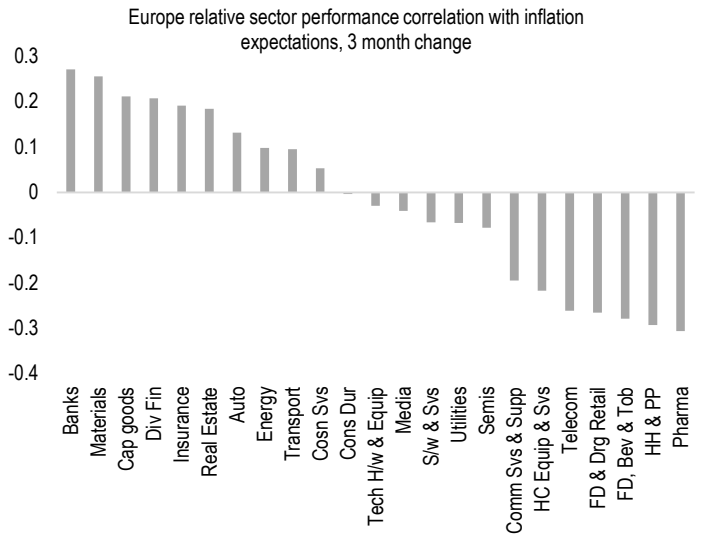
FCF % Post WC	Base			Spot		Stress 1		Stress 2	
	2019	2020	2021	2020	2021	2020	2021	2020	2021
BHP Group	11.4%	7.8%	7.2%	9.3%	10.7%	6.1%	2.8%	4.5%	(0.4%)
Rio Tinto	12.7%	10.3%	11.7%	11.7%	16.9%	7.6%	4.1%	6.1%	(0.5%)
Glencore	11.6%	3.0%	14.9%	2.3%	17.6%	6.4%	10.1%	8.4%	5.5%
Anglo American	8.2%	2.2%	9.7%	3.3%	14.8%	0.5%	7.4%	(0.8%)	3.8%
Average	**11.0%**	**5.8%**	**10.9%**	**6.6%**	**15.0%**	**5.1%**	**6.1%**	**4.6%**	**2.1%**
Median	**11.5%**	**5.4%**	**10.7%**	**6.3%**	**15.9%**	**6.2%**	**5.7%**	**5.3%**	**1.7%**

Stress 1: Iron Ore US$50/t; Copper US$2.0/lb; Thermal Coal US$60/t; Coking US$120/t
Stress 2: Iron Ore US$30/t; Copper US$1.55/lb; Thermal Coal US$55/t; Coking US$100/t

Source: Credit Suisse European Mining Research

- *Mining has a very high correlation with inflation expectations.*
- *It is a real asset play* (our view remains that the TIPS yield will fall to -2% from c.-1% currently).
- It is a China play (nearly half of copper demand comes from China) where IP growth has recovered to 4.8% year-on-year, Markit manufacturing PMI new orders are at their highest levels since Jan 2011 and there is clear-cut evidence of a rebound in construction (China construction PMI is at 60.5) and real estate and infrastructure FAI is up by 8% and 6% yoy in Q2.

Figure 32: Mining sector has one of the highest correlations with inflation expectations



Source: Refinitiv, Credit Suisse research

Figure 33: Real estate investment has picked up

Source: Refinitiv, Credit Suisse research

- It is not technically disrupted (renewables use 14x more copper than fossil fuels and EVs require much more copper than combustion engines).
- The industry structure is attractive (especially for iron ore, with the top four producers accounting for c80% of seaborne iron ore and all the low-cost capacity being in the quoted sector). Our Mining team's top pick is Anglo American, which trades on 3x 2021 EBITDA, after adjusting for the value of its cross holdings.

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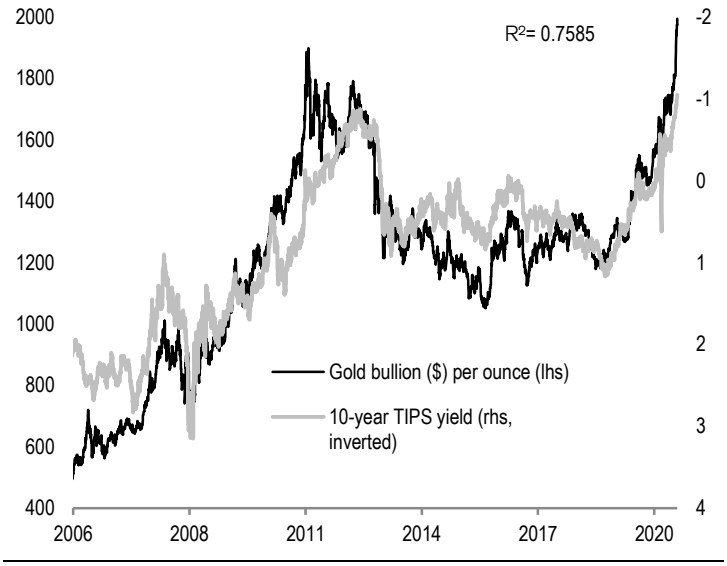
Gold

With 95% of gold consumers coming from outside the US, the gold price benefits from a weaker US dollar.

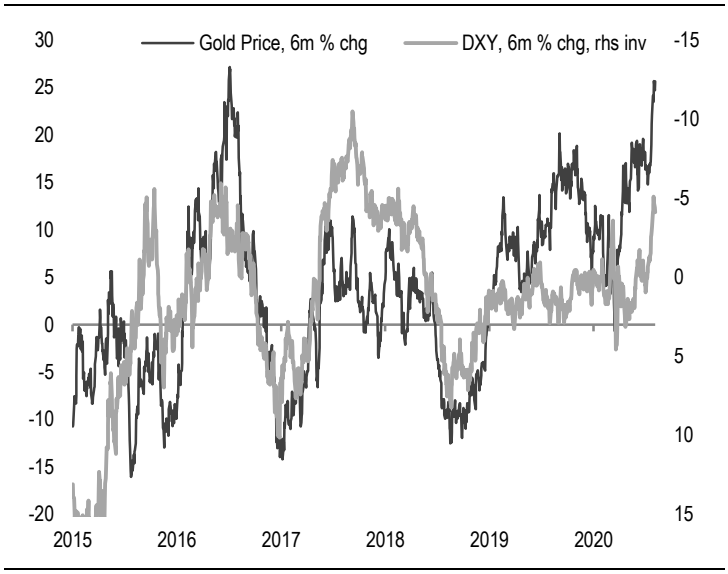
Moreover, the most important driver of gold is the TIPS yield, which we think will fall to -2%, which would be in line with a gold price of $2,200. For more details on our view of gold, please see Long-term inflationary consequences and what to do.

Figure 34: Gold tends to track the inverse of real yields as proxied by the TIPS yield (rhs, inverted)



Source: Refinitiv, Credit Suisse research

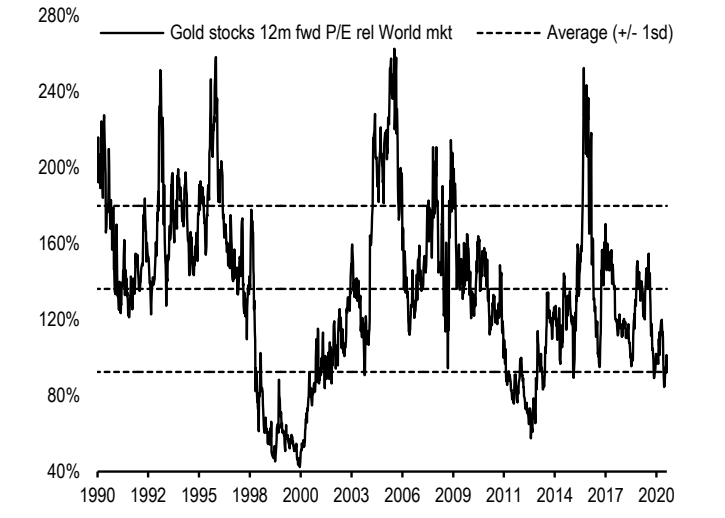
Figure 35: Gold and the dollar move inversely with each other



Source: Refinitiv, Credit Suisse research

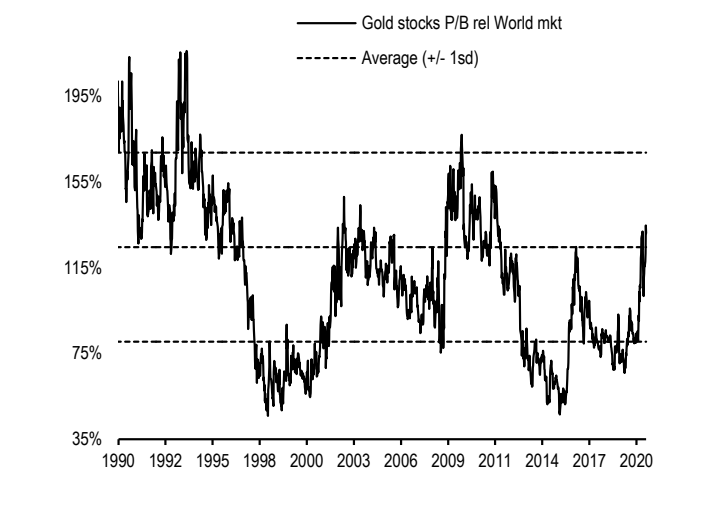
Gold stocks look inexpensive on P/E relative to the market and neutrally valued on P/B relative to the market.

Figure 36: Gold stocks are cheap on a 12m forward P/E relative basis…



Source: Refinitiv, Credit Suisse research

Figure 37: …and neutral on P/B relative



Source: Refinitiv, Credit Suisse research

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Below we show a screen of Outperform-rated gold stocks.

Figure 38: Outperform-rated gold stocks

Name	-----P/E (12m fwd) ------			------ P/B -------		2020e, %		HOLT	2020e Momentum, %			
	Abs	rel to Industry	rel to mkt % above/below average	Abs	rel to mkt % above/below average	FCY	DY	Price, % change to best	3m EPS	3m Sales	Consensus recommendation (1=Buy; 5=Sell)	Credit Suisse rating
Newmont	22.7	123%	-19%	2.7	27%	4.6	1.4	66.9	7.4	2.0	2.1	Outperform
Zhaojin Mining Ind.'H'	24.7	133%	-18%	2.5	-22%	na	1.0	-58.7	2.8	-1.4	1.9	Outperform
Zijin Mining Group 'H'	18.7	101%	1%	2.8	21%	6.8	2.5	-42.8	12.5	7.6	1.9	Outperform
St Barbara	10.5	57%	-47%	1.9	-17%	8.8	2.5	104.3	-6.1	-1.3	2.4	Outperform
Endeavour Mining	10.7	58%	-68%	4.4	157%	8.8	0.2	86.1	36.2	35.9	1.8	Outperform
Oceanagold Cdi.	15.5	84%	na	na	na	11.9	0.4	126.9	-82.0	0.4	1.9	Outperform

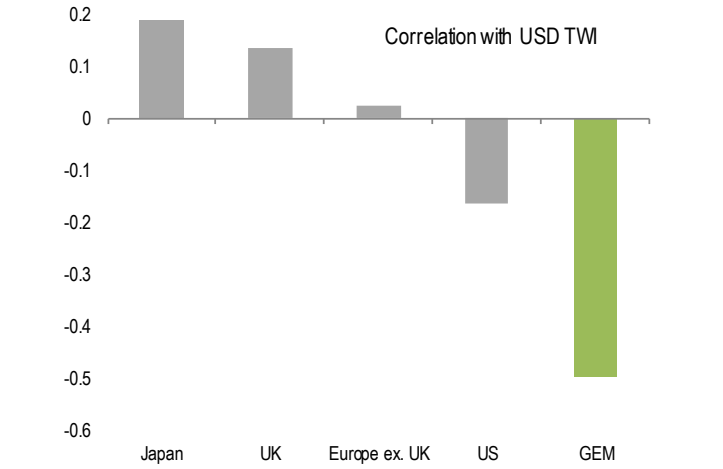
Source: Refinitiv, IBES, MSCI, Credit Suisse HOLT, Credit Suisse estimates

Regions

Emerging markets

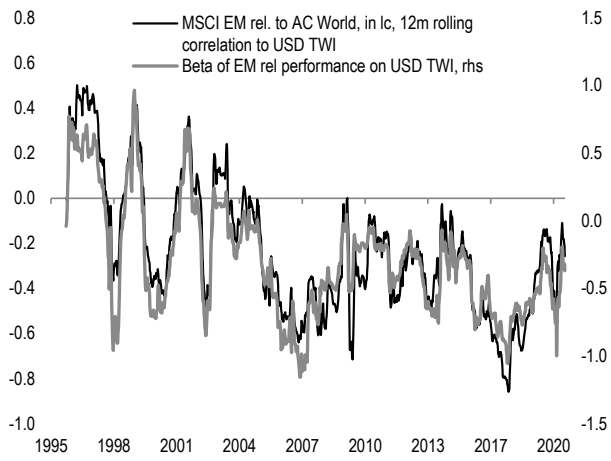
Emerging markets are clear beneficiaries of USD weakness, backing up our strong overweight (see Regional strategy post COVID-19). The correlation has remained very tight.

Figure 39: GEM is the best performing region when the dollar weakens



Source: Refinitiv, Credit Suisse research

Figure 40: Rolling correlation and beta of EM equities and USD has weakened



Source: Refinitiv, Credit Suisse research

Ordinarily GEM outperformance correlates very closely with dollar weakness, but GEM can outperform up to one year ahead of the peak in the dollar.

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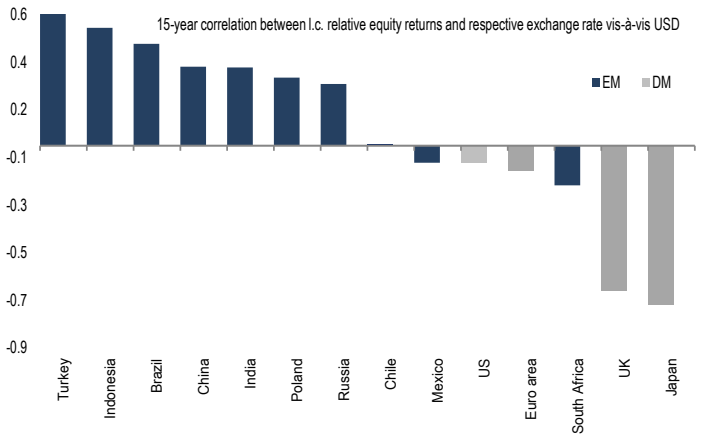
Figure 41: Most emerging markets outperform as their currencies strengthen



Source: Refinitiv, Credit Suisse research

Figure 42: GEM trough vs peak in DXY

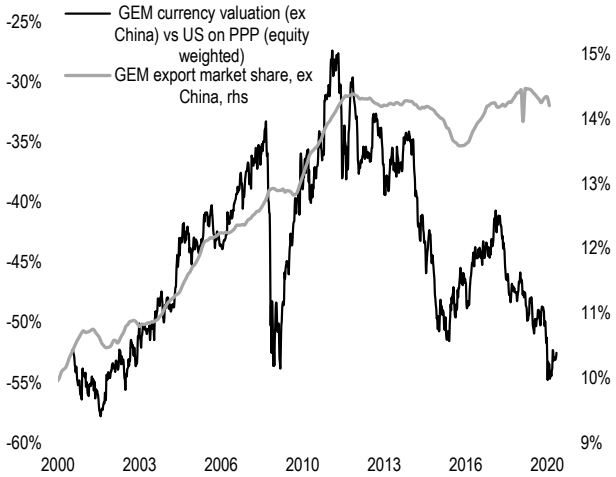
EM relative performance			DXY		
EM peak	EM trough dates	Max Drawdown	DXY Peak Date	Peak Value	Months between DXY peak and EM trough
Aug-90	Jan-91	-20%	Jun-89	106	-20
Sep-94	Mar-95	-30%	Feb-94	97	-13
Apr-97	Sep-98	-60%	Jul-01	121	34
Feb-00	Oct-01	-31%	Jul-01	121	-3
Feb-08	Oct-08	-30%	Mar-09	89	5
Sep-14	Jan-16	-25%	Dec-16	103	11
		Average			2

Source: Refinitiv, Credit Suisse research

The reason is that emerging markets have $5.4trn of FX-denominated debt. Moreover, imports are often USD-denominated, hence appreciating GEM currencies reduce inflation and give EM central banks more flexibility to cut rates.

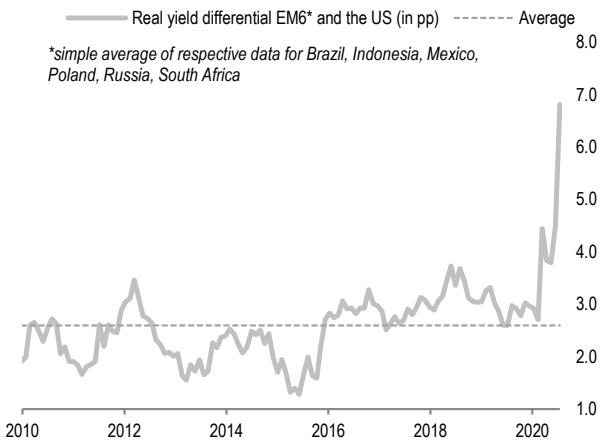
We would add that GEM currencies are very clearly undervalued against export market share. Hence this time around, GEM currencies' strength could be much larger than normal, especially at a time when the real yield pick-up is particularly high.

Figure 43: GEM currencies are, in aggregate (GDP weighted), around 30pp cheap when compared to their global export market share



Source: Refinitiv, Credit Suisse research

Figure 44: Emerging market real yields are at 7 p.p premium relative to the US



Source: Refinitiv, Credit Suisse research

We would also note that the basic balance of payments position of many emerging markets has improved sharply (with India, Brazil and Mexico forecast to have a current account surpluses of 1% of GDP, -1.1% of GDP and 0.1% of GDP, respectively, in 2020). We show in the Appendix that the most attractive combination between cheap currency and good fundamentals can be found in the Russian Ruble and Malaysian Ringgit.

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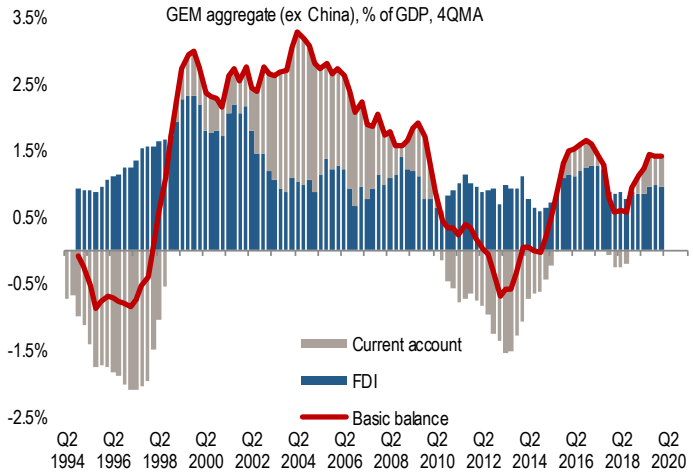
Figure 45: GEM aggregate (ex China) basic balance

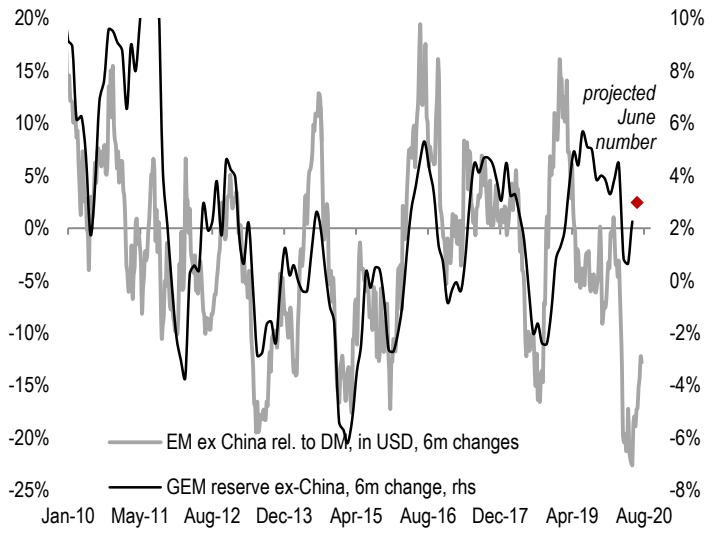


Source: Company data, Credit Suisse estimates

Last, we believe that dollar weakness will lead to a rise in FX reserves as the carry trade in GEM starts to get going. This in turn leads to central banks trying to cap currency strength by building up FX reserves, and that in turns leads to an increase in money supply, leading asset prices and hence GEM to outperform. So far, we can see returns have lagged FX reserves.

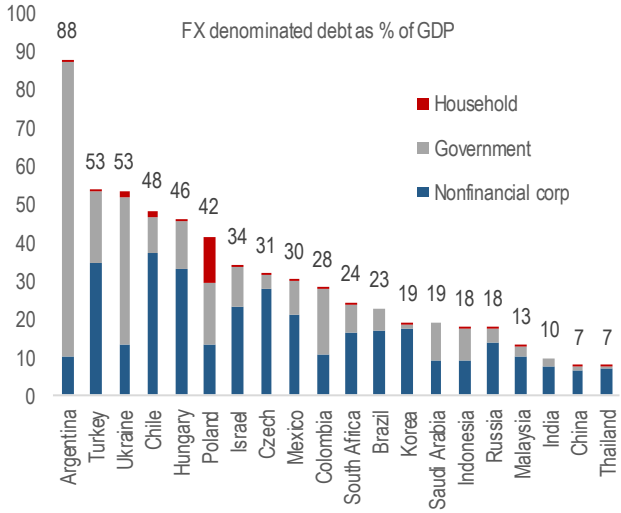
The emerging markets that stand to benefit most from a weaker dollar are those with the highest FX-denominated debt.

Figure 46: GEM relative performance vs change in FX reserves



Source: Refinitiv, Credit Suisse research

Figure 47: FX-denominated debt as % of GDP by country and sector



Source: IIF, Credit Suisse research

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Below we show European stocks with high GEM exposure.

Figure 48: Outperform-rated GEM-exposed stocks in Europe

Name	Rel perf since 20th Feb 2020	GEM Exposure (%)	-----P/E (12m fwd) ------			------ P/B -------		2020e, %		HOLT	2020e Momentum, %			
			Abs	rel to Industry	rel to mkt % above/below average	Abs	rel to mkt % above/below average	FCY	DY	Price, % change to best	3m EPS	3m Sales	Consensus recommendation (1=Buy; 5=Sell)	Credit Suisse rating
Danone	-3%	45%	15.5	71%	-38%	2.1	-38%	4.9	3.6	-19.1	-9.8	-3.8	2.2	Outperform
Carlsberg B	5%	52%	22.2	96%	-6%	3.2	33%	4.5	2.1	-30.4	0.7	-1.3	2.0	Outperform
Symrise	27%	42%	37.4	166%	13%	6.0	16%	2.5	1.0	-25.6	-1.1	-1.1	2.6	Outperform
Heineken	-9%	46%	24.1	105%	-5%	2.8	-22%	3.1	1.6	-10.8	-29.9	-7.3	2.8	Outperform
Logitech 'R'	79%	63%	32.9	134%	27%	7.7	74%	2.5	1.1	-15.3	6.3	6.0	2.6	Outperform
Asm International	37%	60%	21.4	102%	12%	3.5	71%	4.1	1.3	-4.5	9.8	4.0	1.9	Outperform
Unilever (Uk)	18%	58%	20.7	82%	-21%	47.6	90%	na	3.1	-2.9	-2.8	0.5	2.5	Outperform
Ubisoft Entertainment Cat A	9%	55%	23.7	na	-15%	6.6	36%	-1.7	0.0	-2.0	-16.1	0.9	2.3	Outperform
Ferrexpo	35%	50%	6.3	34%	-27%	1.1	-54%	33.4	6.3	130.0	20.3	4.3	3.3	Outperform
Lanxess	-2%	53%	13.2	58%	-32%	1.4	-44%	7.7	2.1	33.1	-16.7	-5.3	2.3	Outperform
Partners Group Holding	7%	50%	29.3	177%	-2%	10.2	8%	na	2.7	-14.9	-8.2	-6.9	2.1	Outperform
Sonova N	-7%	47%	34.4	157%	13%	6.4	6%	3.9	0.8	-54.0	-42.2	-17.4	3.2	Outperform
Kone 'B'	41%	45%	36.6	188%	19%	11.3	17%	2.5	2.5	-39.9	-0.5	0.4	3.5	Outperform
Mondi	-2%	45%	12.4	83%	-28%	1.8	-26%	6.0	2.8	69.7	-7.8	-2.9	2.1	Outperform
Schindler 'P'	16%	42%	30.5	157%	-2%	6.6	-12%	3.0	1.7	na	-7.3	-1.7	2.9	Outperform
Schneider Electric	13%	42%	21.5	111%	4%	2.6	12%	4.7	2.5	4.6	-5.8	-4.8	2.3	Outperform
Lafargeholcim	5%	41%	14.7	90%	-31%	0.9	-35%	8.9	4.6	47.4	-12.5	-5.6	1.7	Outperform

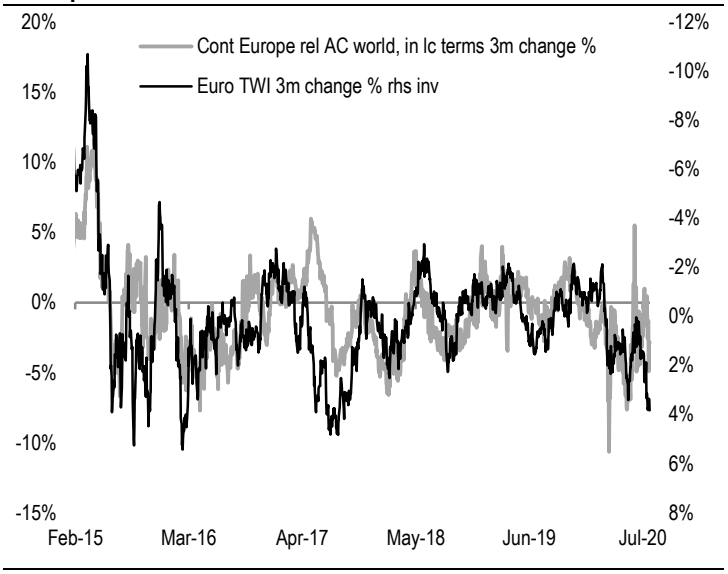
Source: Refinitiv, MSCI, IBES, Credit Suisse HOLT, Credit Suisse research

Although it is rated Underperform, Ashmore would be a logical beneficiary of investors moving into local currency debt in GEM.

Europe

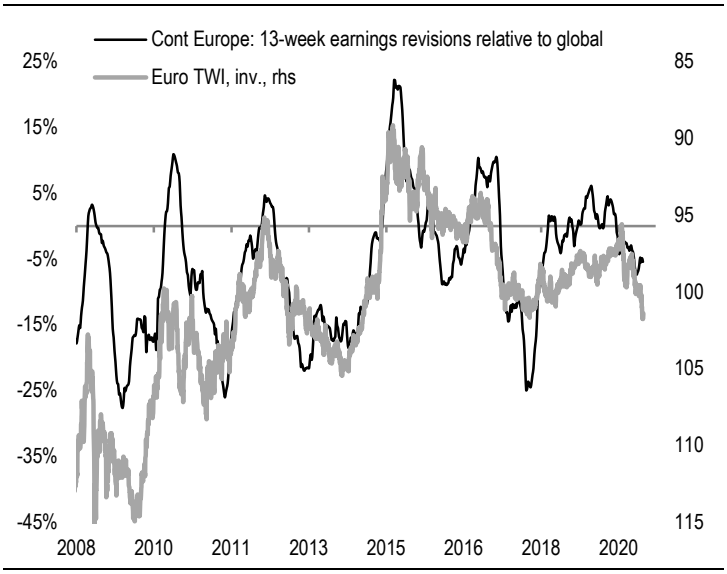
A stronger euro is clearly negative for euro area equities. The problem is that when the euro appreciates, euro area equities underperform 70% of the time in local currency terms. Historically, 10% on the euro takes about 6% off EPS given the strong negative correlation between a stronger euro and European earnings. This is why we have an overweight in dollar terms but a benchmark stance in local currency terms.

Figure 49: A stronger euro tends to see European equities underperform…



Source: Refinitiv, Credit Suisse research

Figure 50: …as currency strength weighs on relative earnings revisions



Source: Refinitiv, Credit Suisse research

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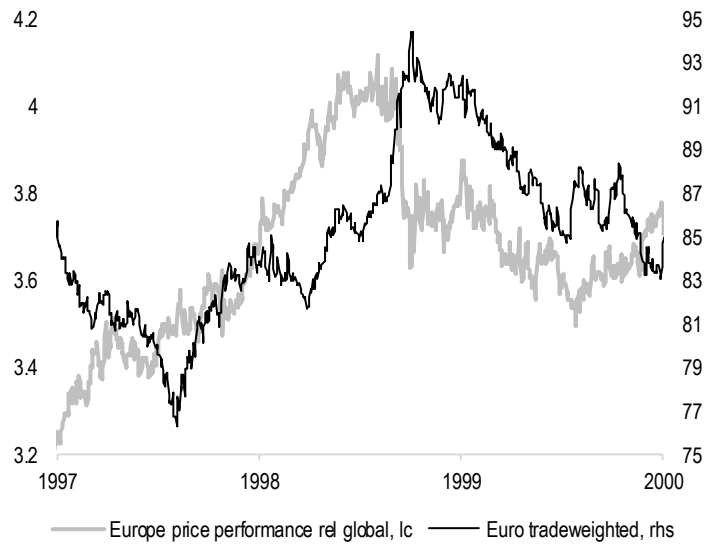
Recently we have had a period when the euro appreciated and Europe outperformed the US until strong tech performance put a temporary end to Europe's outperformance.

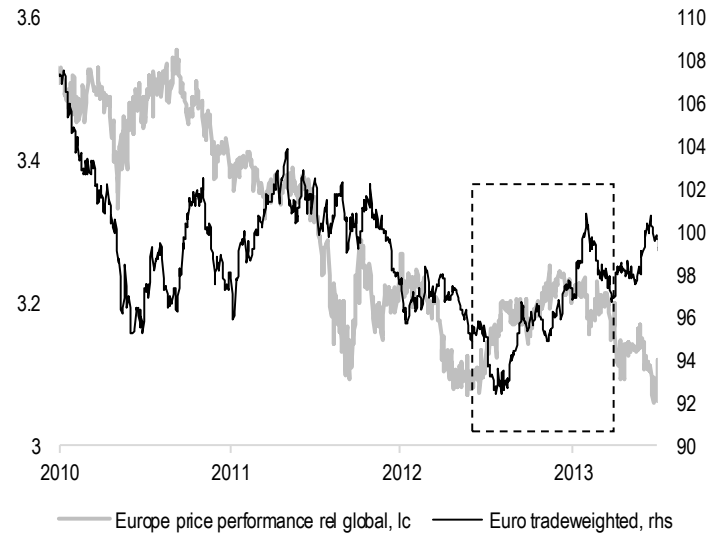
Historically there have been periods when European politics appear to deliver both a stronger euro and European equities outperforming in local currency terms. In the late 1990s, just before the euro was established as an accounting currency in 1999, there was a period of enthusiasm towards the European project, which saw both European equities outperform in local currency terms and the synthetic euro (euro area currencies) appreciate. Again, following Mario Draghi's 'whatever it takes' speech in July 2012, the same dynamic was apparent. However, we doubt that the Recovery Fund can be considered a similar turning point as these previous two occasions, especially as European equities are only modestly undervalued (with the sector-adjusted P/E only 7% below that of the US – see Appendix 3).

Figure 51: The late 1990s saw Europe outperform and the euro appreciate...



Source: Refinitiv, Credit Suisse research

Figure 52: …with the same occurring after Mario Draghi's 'whatever it takes' speech



Source: Refinitiv, Credit Suisse research

Germany, Belgium and the Netherlands are the worst performing countries when the euro strengthens, while Spain and the periphery tend to perform best.

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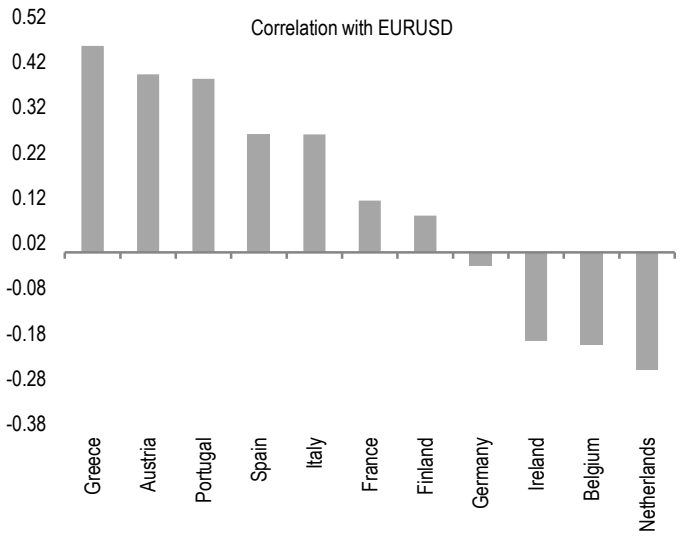
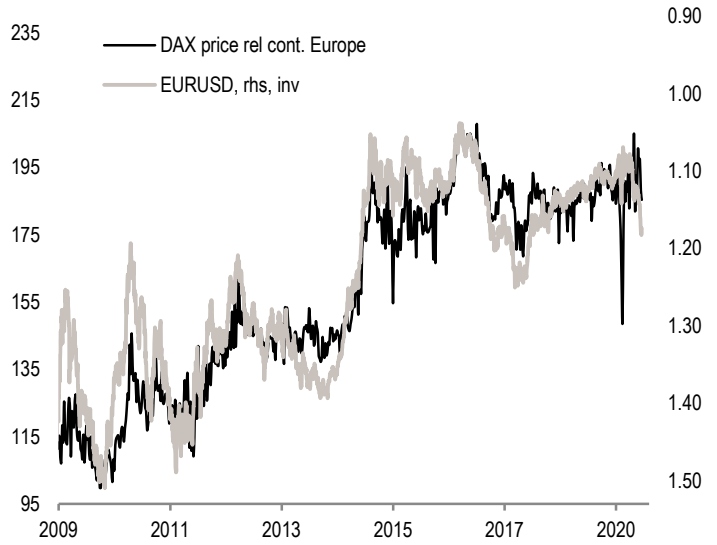
Figure 53: Currency correlation of European countries



Source: Refinitiv, Credit Suisse research

Figure 54: The DAX generally underperforms Europe when the euro strengthens

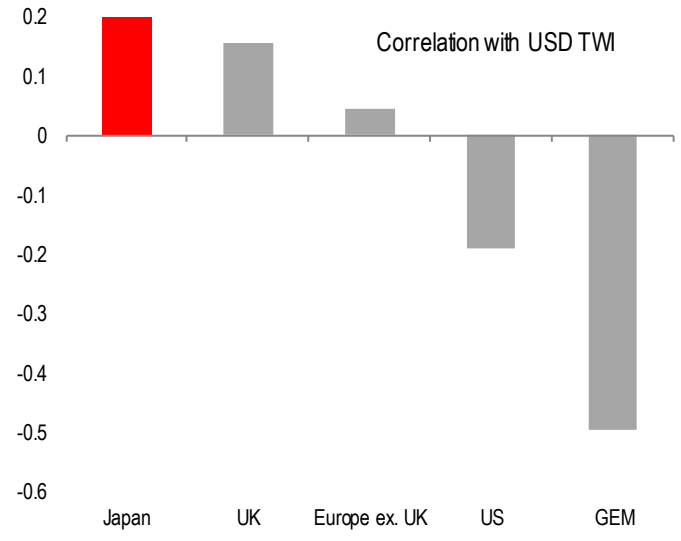


Source: Refinitiv, Credit Suisse research

Japan

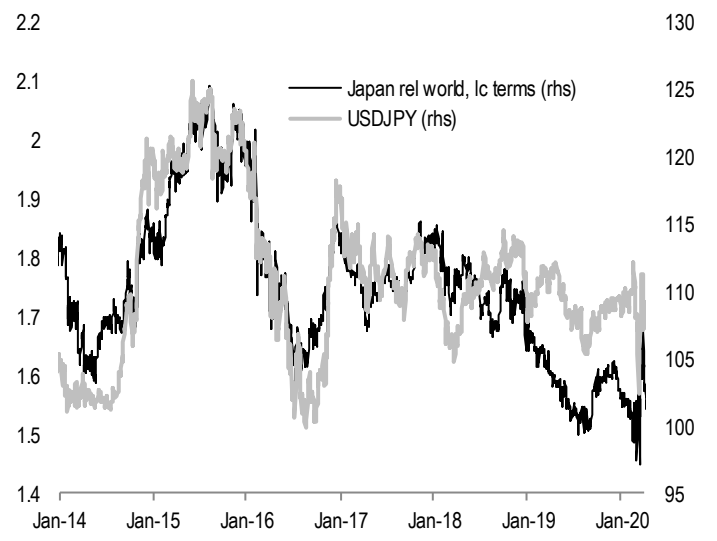
The relationship between Japanese equities and the yen is even closer than that between the euro and euro area equities. In fact, Japan is the region with the highest positive correlation with the USD; i.e. Japan underperforms as the dollar weakens.

Figure 55: Japan is the market with the highest positive correlation with the USD…



Source: Refinitiv, Credit Suisse research

Figure 56: …outperforming when it strengthens, and vice versa



Source: Refinitiv, Credit Suisse research

The strengthening of the yen against the US dollar is one of the reasons why Japanese earnings revisions have been falling relative to the rest of the world.

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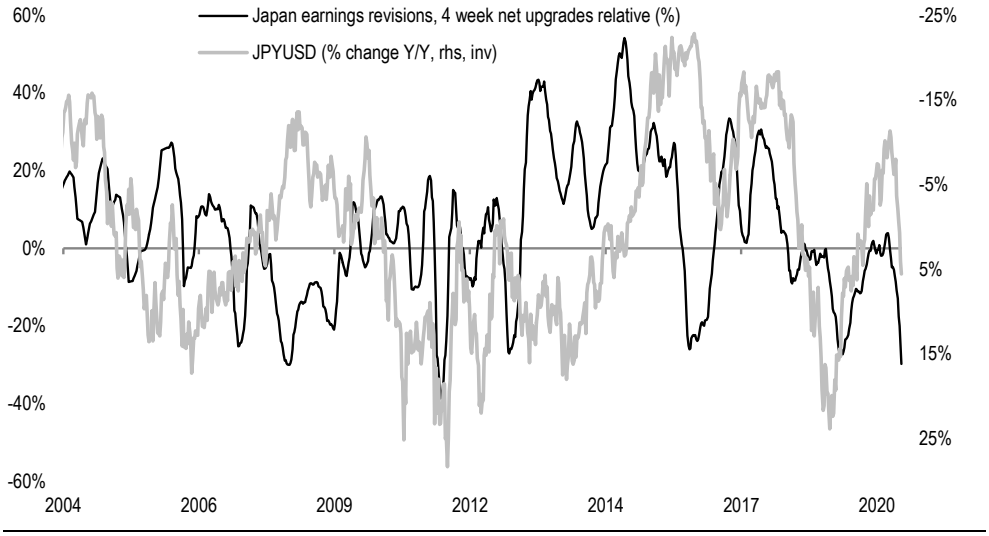
Figure 57: Japanese earnings revisions tend to fall as the yen strengthens



Source: Refinitiv, Credit Suisse research

UK

The UK is the second most negatively impacted region from a weaker US dollar (see Figure 55), with only 23% of sales coming from the UK.

Figure 58: Regional sales exposure

Regional sales, % of total	FTSE 100	Euro Stoxx 50	S&P 500
Europe	20.8%	52.5%	5.7%
UK	22.7%	2.0%	1.0%
North America	21.7%	20.5%	64.8%
GEM	24.6%	18.8%	9.4%
Others	9.9%	6.3%	19.2%
Total	**100%**	**100%**	**100%**

Source: Refinitiv, Credit Suisse research

Consequently, sterling is a key driver of the FTSE's performance, and earnings revisions closely correlate with the currency.

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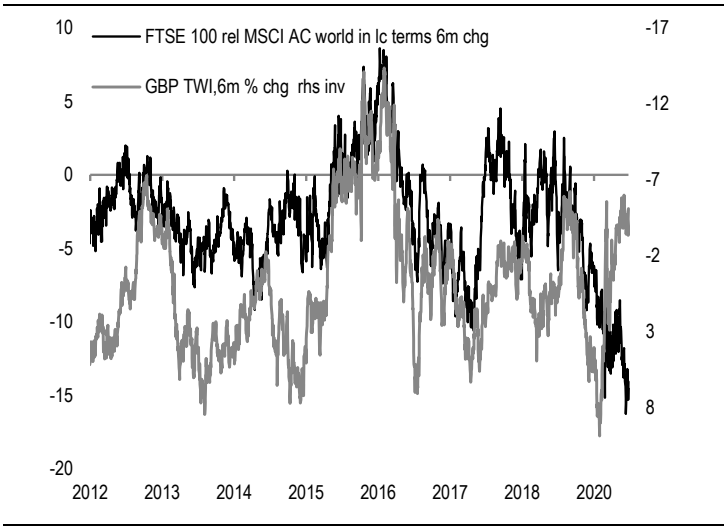
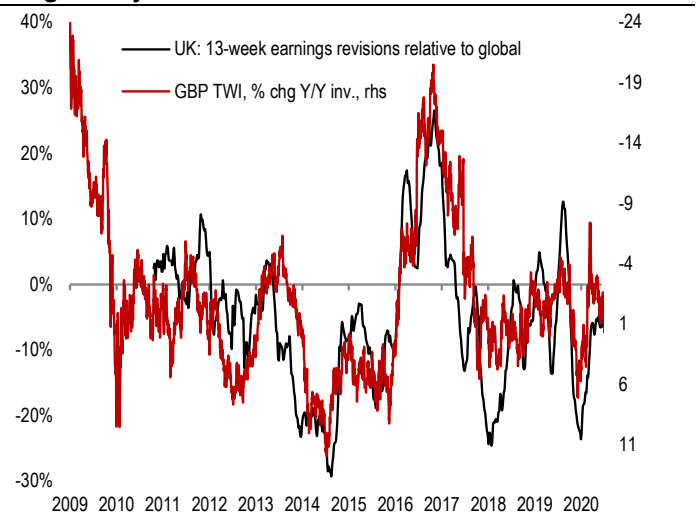
Figure 59: Relative performance of the FTSE against GBP TWI



Source: Refinitiv, Credit Suisse research

Figure 60: Earnings momentum tracks trade-weighted sterling closely

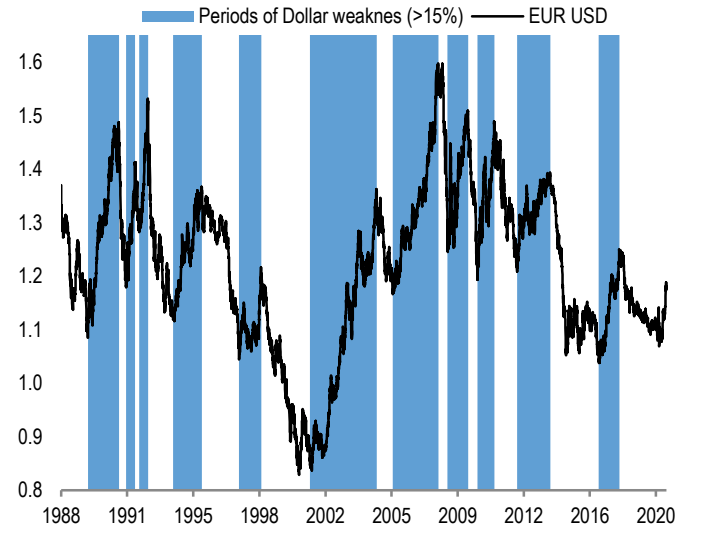


Source: Refinitiv, Credit Suisse research

Hedged versus unhedged returns

We have shown above that UK, Japanese and euro area equities tend to underperform in local currency terms as the US dollar weakens. However, we would note that in USD terms, European and UK equities still outperform in periods of substantial USD weakness (by more than 15%). See Japan and the UK in Appendix 4.

Figure 61: During periods of euro strength…



Source: Company data, Credit Suisse estimates

Figure 62: … euro area equities outperform in USD terms

Start Date	End Date	Change in EUR USD	Euro Area perf rel AC World (USD terms)	Euro Area perf rel AC World (Local terms)	Duration
14-Jun-89	11-Feb-91	37.2%	18.9%	-4.5%	607
04-Jul-91	23-Dec-91	19.8%	5.3%	-6.1%	172
20-Mar-92	02-Sep-92	19.5%	0.0%	-11.1%	166
17-Jan-94	28-Jul-95	22.2%	7.1%	-6.3%	557
05-Aug-97	08-Oct-98	16.5%	23.3%	7.7%	429
01-Jun-01	30-Dec-04	61.0%	9.7%	-20.9%	1,308
16-Nov-05	22-Apr-08	37.0%	21.1%	-1.1%	888
27-Oct-08	01-Dec-09	21.2%	4.6%	-6.1%	400
07-Jun-10	02-May-11	24.8%	12.1%	-1.1%	329
24-Jul-12	06-May-14	15.3%	24.8%	8.5%	651
16-Dec-16	25-Jan-18	20.1%	6.6%	-6.2%	405
Average		**26.8%**	**12.1%**	**-4.3%**	**537**

Source: Company data, Credit Suisse estimates

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Sectors

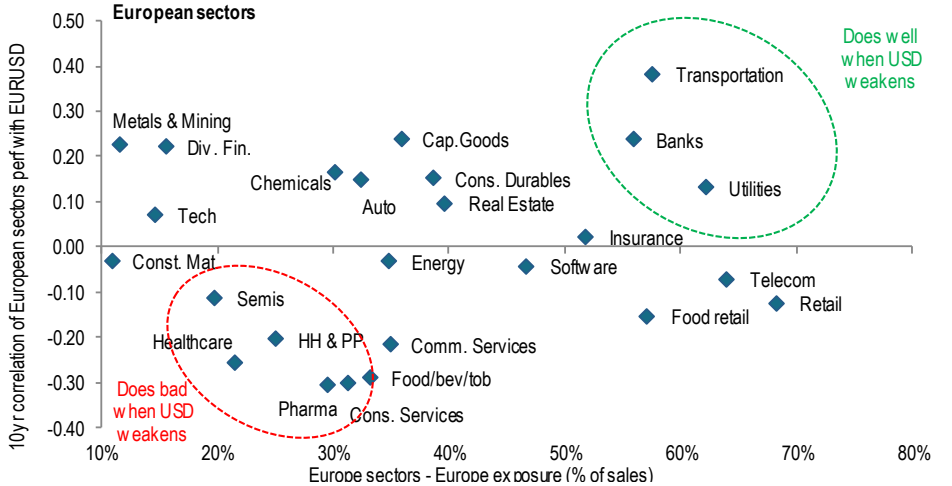
Sectors with domestic Europe exposure

There are two ways of trying to work out which sectors stand to benefit most from currency strength.

- **Sales exposure:** The more domestic a sector's earnings, the less affected it is by a stronger currency. Hence, in an environment of euro strength, we think investors should focus on domestic sectors such as utilities, employment agencies and financials.
- **Statistical relationship:** When the US dollar weakens, investors should look to gain exposure to sectors with a strong positive correlation with the euro (e.g. transport and banks). The problem with the statistical relationship is that often the dollar strengthens into a recession because of dollar funding shortfalls (as we saw in 2009 and March this year) and thus the sector performance is driven not by USD but the moves in PMIs.

The scatter plot below combines these approaches, with banks, utilities and transport offering the best combination of sales exposure and statistical relationship.

Figure 63: Revenue exposure of European sectors to Europe and sensitivity to the euro



Source: Refinitiv, Credit Suisse research

The problem for banks is that if the euro becomes too strong, the ECB might have to cut interest rates.

Airlines historically have also done very well during periods of euro strength, with their costs (fuel and aircraft) often-dollar denominated, while in the case of the budget airlines, their revenues are almost entirely domestic. However, in the current environment any developments around Covid-19 (renewed lockdowns, etc.) clearly dominate any currency impact.

Therefore, to us the clear relative 'winners' are utilities (see European utilities to overweight, pharma and energy to underweight) and P&C (see What to do with European Financials).

Pharma sees a strong negative impact when the dollar weakens, having the highest sales exposure to the US.

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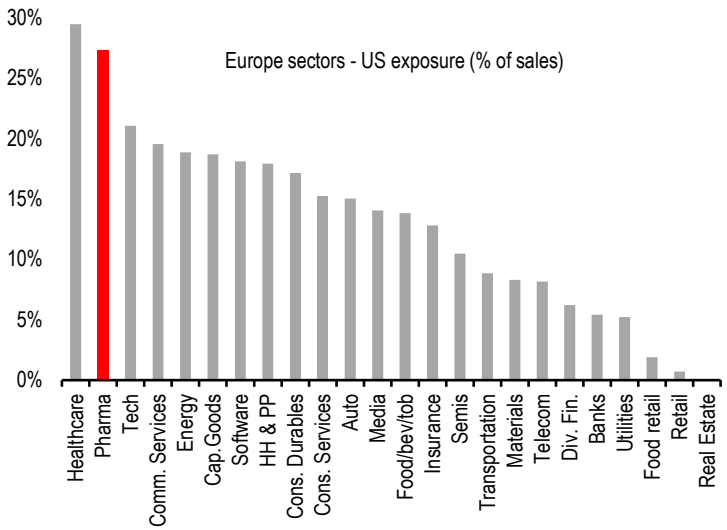
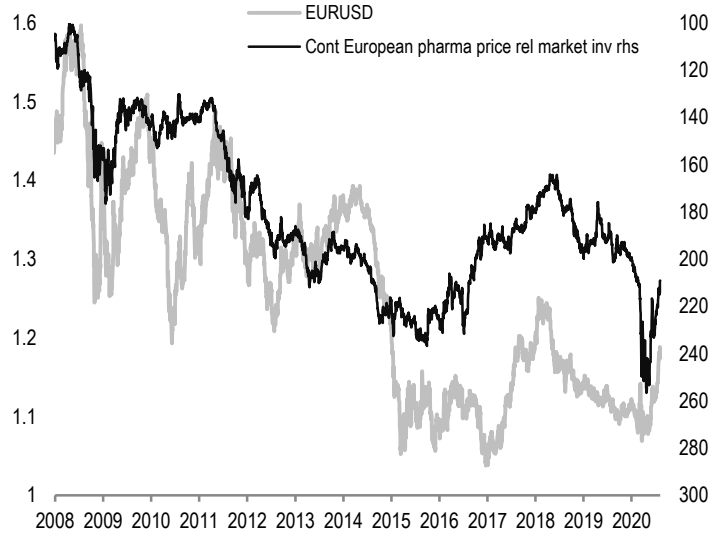
Figure 64: European Pharma gets 27% of sales from the US…



Source: Refinitiv, Credit Suisse research

Figure 65: … and European Pharma's price relative has recoupled with the dollar



Source: Refinitiv, Credit Suisse research

What about specific stocks?

Stocks with large domestic sales exposure

The screen below filters for European and UK (below the line) companies with large sales exposure to Europe that are Outperform-rated by CS analysts. All have a negative correlation with the USD TWI and outperform MSCI Europe as the dollar weakens. Please note that the sales exposure numbers are based on data provided by Refinitiv DataStream.

Figure 66: Stocks with large European exposure

Name	European Sales Exposure (%)	5 yr Correl of rel perf with USD TWI	-----P/E (12m fwd) ------			------ P/B -------		2020e, %		HOLT	2020e Momentum, %		Consensus recommendation (1=Buy; 5=Sell)	Credit Suisse rating
			Abs	rel to Industry	rel to mkt % above/below average	Abs	rel to mkt % above/below average	FCY	DY	Price, % change to best	3m EPS	3m Sales		
Snam	100%	-11%	13.7	80%	-21%	2.4	-9%	4.5	5.4	-13.6	-1.8	-0.8	2.4	Outperform
E On N	100%	-18%	15.0	87%	-9%	2.9	-65%	na	4.6	-32.1	-0.5	-3.4	2.1	Outperform
Kpn Kon	91%	-13%	17.8	139%	-42%	4.9	-12%	6.8	5.7	-27.7	-0.8	-0.5	2.3	Outperform
Dsv Panalpina	88%	-36%	31.3	106%	16%	4.0	-24%	2.3	0.3	-20.5	-2.6	-7.2	2.1	Outperform
Credit Agricole	86%	-14%	9.5	80%	-17%	0.4	-36%	na	3.8	39.5	-6.6	-0.8	2.1	Outperform
Enel	81%	-27%	15.2	88%	-2%	2.7	69%	5.6	4.5	41.7	-2.2	1.3	2.1	Outperform
Bnp Paribas	79%	-16%	8.3	70%	-29%	0.5	-46%	na	4.1	67.1	-18.2	-0.6	2.4	Outperform
Capgemini	79%	-37%	15.1	46%	-27%	2.1	-6%	5.5	1.6	-29.7	-3.3	-0.9	2.1	Outperform
Rwe	70%	-26%	17.6	102%	11%	1.2	-47%	-0.6	2.6	162.7	2.4	-5.8	2.1	Outperform
Vivendi	70%	-19%	18.6	na	-35%	1.7	1%	4.6	2.8	-3.1	-9.1	0.3	1.8	Outperform
Kloeckner & Co	66%	-33%	-12.6	nm	na	0.5	-46%	1.4	0.0	30.6	nm	-6.1	2.5	Outperform
Fluidra	53%	-57%	26.6	133%	17%	1.8	13%	4.7	0.6	-30.6	-8.2	-2.8	2.5	Outperform
Persimmon	100%	-22%	12.0	48%	-19%	2.4	7%	8.6	3.5	116.3	-11.9	-7.7	1.9	Outperform
Easyjet	100%	-26%	-66.8	nm	na	0.7	-71%	1.5	0.6	-18.6	nm	-23.1	2.7	Outperform
Kingfisher	83%	-35%	12.8	30%	-27%	0.9	-32%	14.4	1.6	24.0	26.7	7.0	3.3	Outperform
Vodafone Group	67%	-21%	17.1	135%	-38%	0.4	-60%	9.3	6.8	61.0	-26.1	-2.0	2.0	Outperform
Bodycote	59%	-25%	16.2	81%	-22%	1.6	-33%	7.9	2.7	66.4	-21.8	-6.4	2.6	Outperform

Source: Refinitiv, IBES, MSCI, Credit Suisse HOLT, Credit Suisse estimates

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The beneficiaries – stocks with a transactional mismatch (more costs than revenues in USD)

The screen below shows European companies that have more costs than revenues in US dollars. We would note that in the case of Electrolux, the main sensitivity is to USDBRL and the stock would benefit from a stronger BRL relative to the US dollar, as the raw materials for its Latin American business are sourced in USD.

Figure 67: Beneficiaries of a weaker USD

Name	-----P/E (12m fwd) ------			------ P/B -------		2020e, %		HOLT	2020e Momentum, %			
	Abs	rel to Industry	rel to mkt % above/below average	Abs	rel to mkt % above/below average	FCY	DY	Price, % change to best	3m EPS	3m Sales	Consensus recommendation (1=Buy; 5=Sell)	Credit Suisse rating
Associated Brit.Foods	16.1	74%	-43%	1.5	-51%	7.0	1.2	69.6	-22.2	-4.1	2.5	Outperform
Adidas	38.1	163%	31%	6.8	34%	1.1	1.1	-42.1	-62.8	-11.6	2.6	Underperform
Electrolux B	16.3	70%	5%	2.6	-33%	na	2.7	39.0	7.4	-3.9	2.4	Outperform
Hennes & Mauritz B	31.5	72%	8%	4.0	-57%	5.7	0.4	-18.7	-81.6	-7.6	2.9	Underperform
Next	19.1	43%	3%	16.6	-35%	6.5	-0.2	-37.0	-43.4	-13.5	2.7	Underperform
Puma	49.5	212%	27%	5.2	49%	1.6	0.2	-24.6	-71.9	-5.7	2.4	Neutral
Marks & Spencer Group	11.1	25%	-32%	0.5	-79%	15.0	-1.3	47.4	-55.2	-8.9	2.4	Outperform

Source: Refinitiv, IBES, MSCI, Credit Suisse HOLT, Credit Suisse estimates

Stocks with large US sales exposure

The screen below shows European and UK stocks that have large sales exposure to the US and are Underperform-rated by Credit Suisse analysts. Please note that the sales exposure numbers are based on data provided by Refinitiv DataStream.

Figure 68: Stocks negatively impacted by a weaker US dollar

Name	US sales exposure (%)	-----P/E (12m fwd) ------			------ P/B -------		2020e, %		HOLT	2020e Momentum, %			
		Abs	rel to Industry	rel to mkt % above/below average	Abs	rel to mkt % above/below average	FCY	DY	Price, % change to best	3m EPS	3m Sales	Consensus recommendation (1=Buy; 5=Sell)	Credit Suisse rating
Schoeller-Bleckmann	70%	-695.3	nm	na	1.0	-72%	15.9	2.7	-12.4	-109.9	-13.3	3.3	Underperform
Infineon Technologies	35%	27.0	133%	6%	3.2	-1%	2.2	1.1	16.9	-13.2	7.3	2.3	Underperform
Novozymes B	35%	34.9	149%	-13%	9.6	10%	2.3	1.4	-18.9	-1.7	-1.3	3.5	Underperform
Demant	34%	30.7	139%	3%	6.2	-20%	3.2	0.0	-53.3	-48.0	-11.8	2.7	Underperform
Pearson	59%	13.8	na	-32%	0.9	-50%	4.9	3.5	10.0	-16.8	-6.0	3.1	Underperform
Meggitt	49%	12.1	61%	-34%	0.9	-55%	5.2	2.3	5.6	-32.2	-12.6	2.9	Underperform
Sage Group	34%	26.7	82%	5%	5.0	-12%	2.9	2.3	-22.8	-2.7	-0.5	3.1	Underperform
Wpp	31%	9.4	na	-46%	0.9	-59%	9.4	4.1	-2.3	-14.3	0.9	2.6	Underperform

Source: Refinitiv, IBES, MSCI, Credit Suisse HOLT, Credit Suisse estimates

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Stocks with a transactional mismatch (more revenue than cost in USD)

The screen below shows European companies that have more revenues than costs in US dollars.

Figure 69: Stocks negatively impacted by a weaker US dollar

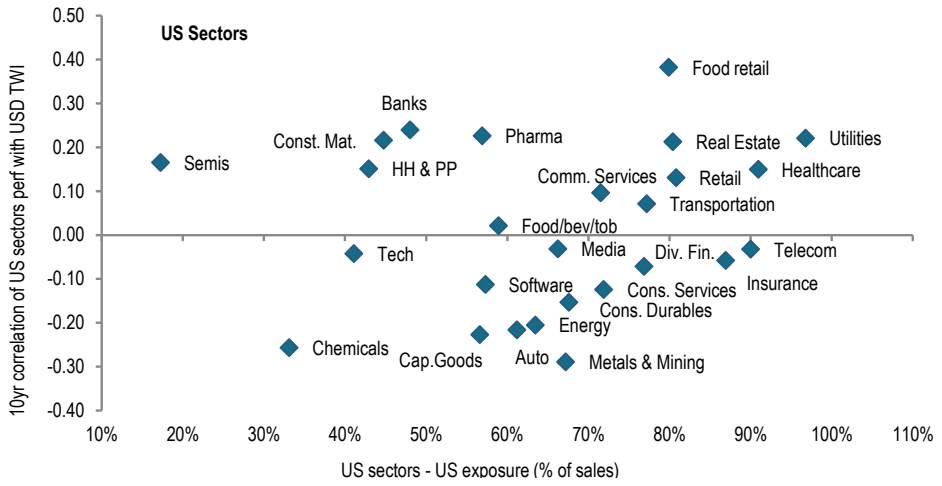
Name	-----P/E (12m fwd) ------			------ P/B -------		2020e, %		HOLT	2020e Momentum, %			
	Abs	rel to Industry	rel to mkt % above/below average	Abs	rel to mkt % above/below average	FCY	DY	Price, % change to best	3m EPS	3m Sales	Consensus recommendation (1=Buy; 5=Sell)	Credit Suisse rating
Atlas Copco A	28.9	149%	38%	8.9	16%	3.3	1.8	-6.0	0.8	0.9	3.2	Neutral
Epiroc A	27.0	139%	-3%	6.6	-6%	na	2.0	na	1.0	-1.8	2.8	Underperform
Sandvik	18.5	95%	-13%	3.4	-18%	6.3	2.3	14.7	4.4	-1.6	2.1	Outperform
Gea Group	25.2	129%	7%	2.7	-10%	4.3	2.5	-1.2	0.6	-0.4	3.1	Neutral
Hermes Intl.	51.3	219%	1%	10.9	-5%	1.8	0.7	-38.9	-15.8	-6.6	2.9	Neutral
Kering	23.0	98%	6%	6.0	64%	3.5	1.6	4.2	-21.1	-10.5	2.2	Outperform
Lvmh	31.1	133%	16%	5.1	21%	2.3	1.2	-15.9	-26.2	-9.0	2.6	Outperform
Boss (Hugo)	20.7	88%	-13%	1.6	-80%	3.3	1.0	-0.5	-103.2	-12.7	2.8	Neutral
Dialog Semicon.	18.6	89%	-13%	2.0	-44%	5.1	0.0	22.9	8.8	5.1	2.3	Outperform
Siltronic	13.1	63%	-42%	2.6	-27%	3.4	2.7	138.3	4.0	4.0	2.6	Neutral
Nokia	15.5	63%	-58%	1.6	-31%	6.0	0.3	73.9	2.9	-4.3	2.2	Neutral
Burberry Group	22.4	96%	-21%	4.3	-37%	5.6	1.5	-21.6	-28.6	-10.3	3.0	Outperform
Richemont N	32.9	141%	21%	1.8	-48%	4.0	1.9	-12.1	-50.8	-11.2	2.8	Underperform
The Swatch Group	30.5	131%	26%	0.9	-67%	1.8	2.0	71.3	-74.3	-12.7	2.9	Outperform
Ericsson B	18.6	76%	-24%	4.1	55%	4.1	1.6	58.0	1.7	-1.7	2.2	Outperform
Infineon Technologies	27.1	130%	7%	3.2	-2%	1.9	1.2	16.9	-14.1	8.9	2.3	Underperform
Stmicroelectronics	24.2	116%	-12%	3.5	64%	2.5	0.7	48.0	-9.8	0.5	2.1	Outperform

Source: Refinitiv, IBES, MSCI, Credit Suisse HOLT, Credit Suisse estimates

Sectors in the US

With regards to US sectors, again considering sales exposure and correlation, those which lose out from a weaker US dollar are utilities, healthcare, real estate and food retail. The relative 'winners' here are chemicals, cap goods and tech.

Figure 70: US sectors – sales exposure vs correlation



Source: Refinitiv, Credit Suisse research

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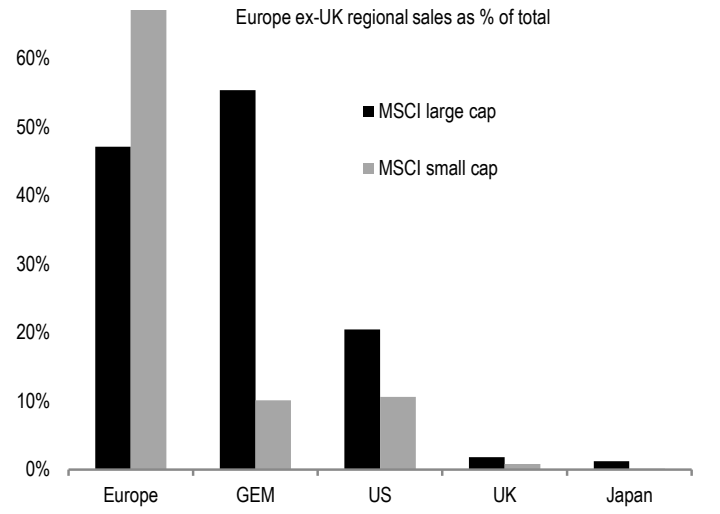
Small caps

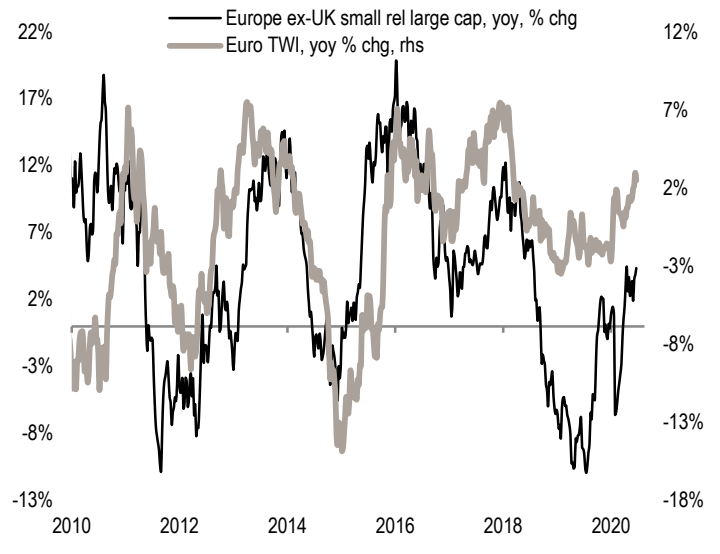
We went overweight Continental European small caps in June (see A time to be 'smaller'). Small caps are more domestic in their exposure than large caps and thus benefit from a stronger euro.

Figure 71: European small caps have a higher domestic weighting than large caps



Source: Refinitiv, Credit Suisse research

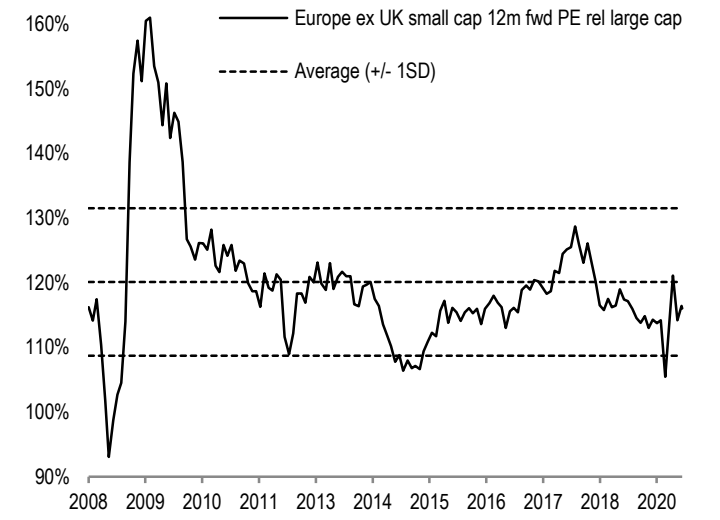
Figure 72: Euro strength is a positive for small caps



Source: Refinitiv, Credit Suisse research

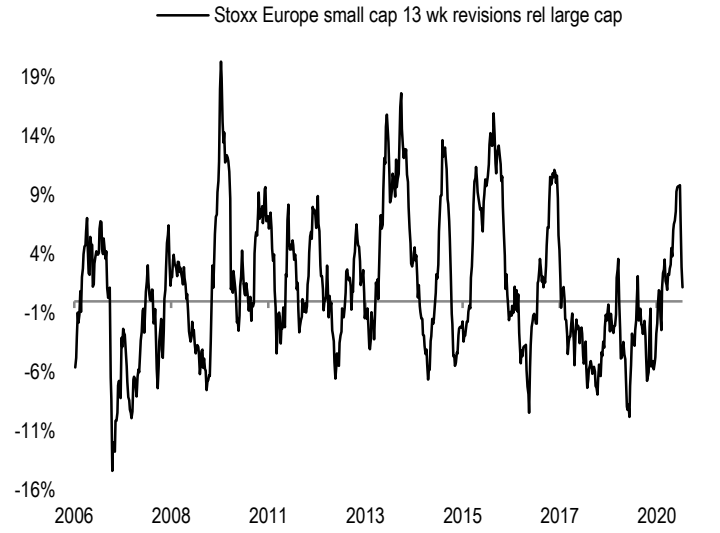
On 12-month forward P/E, small caps trade at a c.20% premium to large caps in Europe, in line with their post-crisis norm. At the same time, earnings revisions of small caps are significantly better than those of large caps.

Figure 73: Small caps are in line with their long-term average valuation on P/E relative to large caps



Source: Refinitiv, Credit Suisse research

Figure 74: Earnings momentum of small caps is better than that of large caps



Source: Refinitiv, Credit Suisse research

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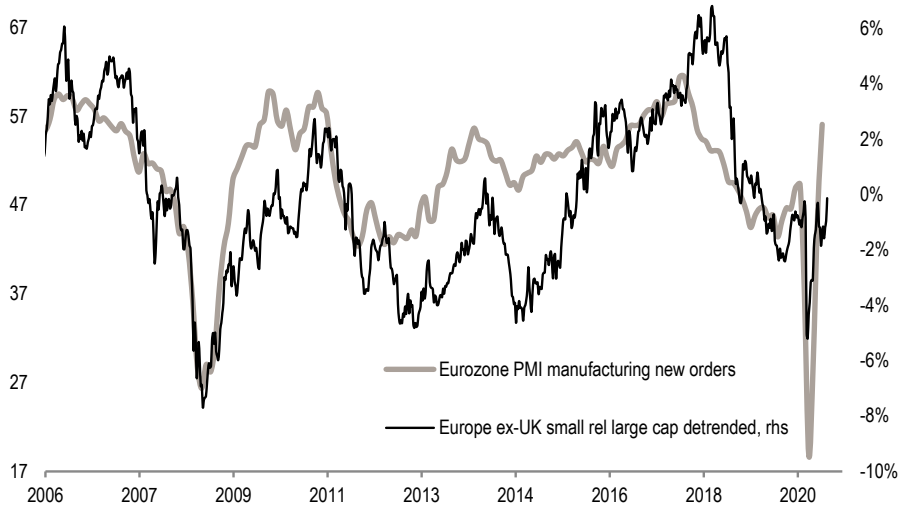
Lastly, small caps are more cyclical than defensives and tend to outperform as PMIs pick up. As we argued above, a weaker US dollar is ultimately good for growth.

Figure 75: European small caps typically have outperformed when PMIs rise

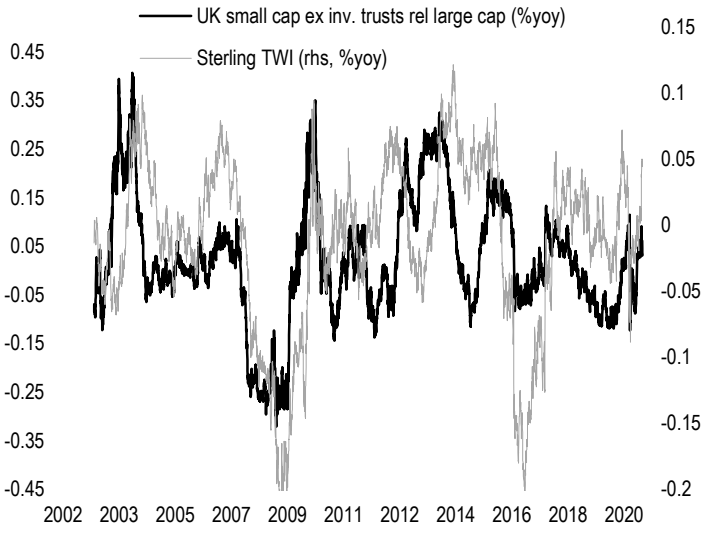


Source: Markit, Refinitiv, Credit Suisse research

We have seen European small caps outperform large caps modestly (3.6%) since June, despite tech outperforming the wider market.

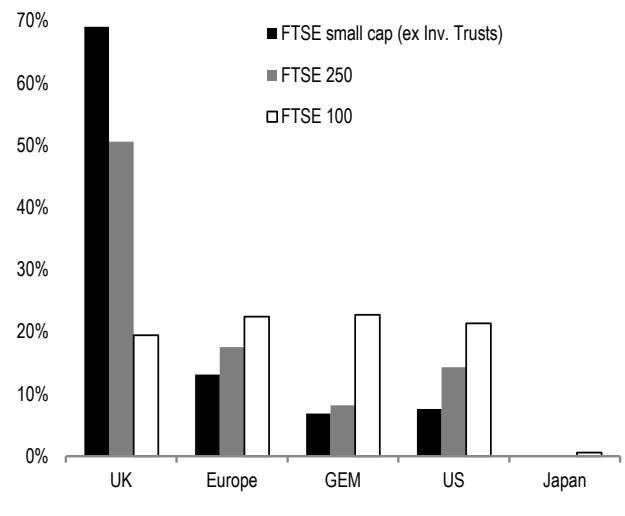
While UK small caps have been flat relative to large cap since June, we would note that they should also be a big beneficiary of a stronger sterling.

Figure 76: UK small caps tend to be correlated with sterling



Source: Company data, Credit Suisse estimates

Figure 77: Sales exposure of UK indices



Source: Company data, Credit Suisse estimates

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Appendix

Appendix 1: Brexit

We believe that on top of a no-deal WTO Brexit largely being discounted by sterling, there may also be more of a compromise for the following reasons:

- **A no-deal Brexit is not much worse than a Canada+ in terms of its modelled impact**

According to a study by Swati Dhingra and Thomas Sampson (LSE) a Canada+ style agreement would reduce GDP per capita by 6.4% (versus 8.1% from WTO Brexit) relative to what income per capita would be if the UK stayed in the EU. The issue is that both Canada+ and WTO rules do not cover services, which are c40% of Britain's exports.

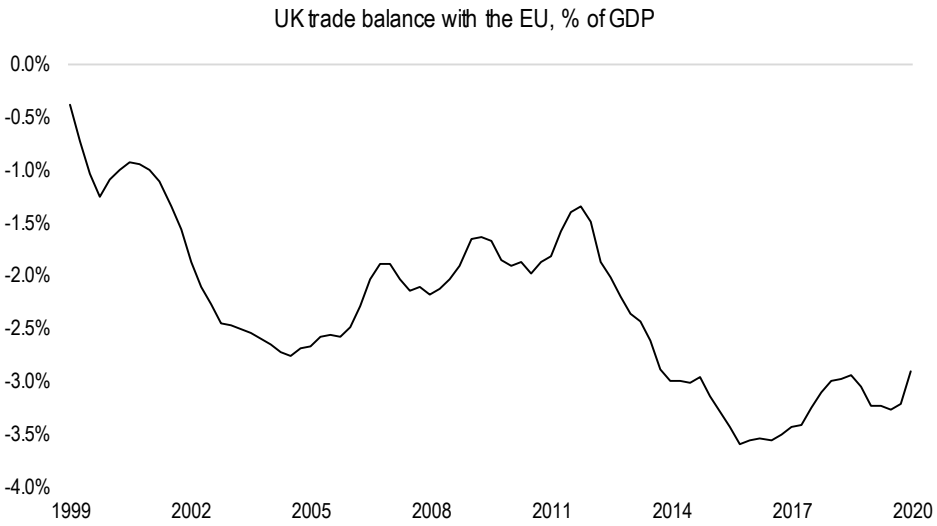
- **The EU tends not to do deals until the last moment**

History suggests that compromises tend to be found very close to deadlines. The legal deadline was 30 June (by that time under the Withdrawal Agreement, the UK government had to request an extension). The practical deadline is probably mid-October as the treaty would have to be agreed upon by 37 parliaments from 27 countries (as it is a mixed deal).

- **The UK has a trade deficit of c3% of GDP with the EU (and a current account deficit of 3.8% of GDP).**

Thus we believe the EU has more of an incentive to reach a deal than the UK.

Figure 78: The UK's trade balance in goods and services with the EU



Source: Company data, Credit Suisse estimates

- **There is room for compromise on many of the issues, hence Canada + or Korea seems like the reasonable worst case scenario.**

The main sticking points have been: fisheries (where the rights were based on 1970s fish stocks. The UK wants a system based on 'zonal attachment'), a level playing field for labour regulation, environment and state aid and the use of the European Court of Justice (ECJ) as the final arbitrator. We think that there is scope to compromise on a level playing field whereby the UK has similar regulations and if the UK equivalence is not deemed to be such that it would be subject to sanctions (this was similar to French proposals). We think that there will be a compromise on fisheries, as after all, the industry employs fewer than 12k people directly and accounts for only 0.01% of GDP (The Economist, July 23). Additionally, the UK has the Falkland Islands which provide half of EU squid, and fishing communities in the Europe are

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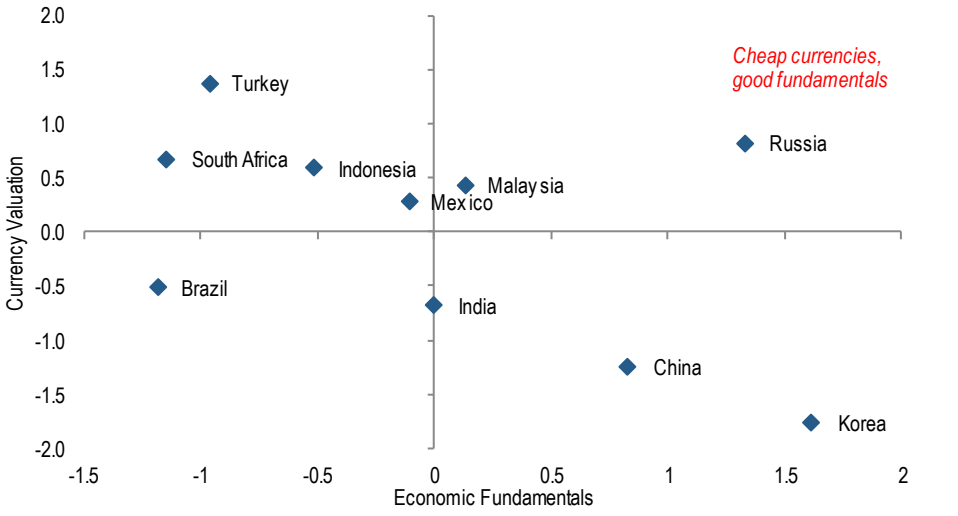
putting pressure on the EU to maintain the status quo and access to UK waters. On state aid, the latest was that the Brussels would be willing to drop its demand that the UK accept state aid rules if in return the UK signs a 'shared philosophy' (FT, July 27). This is happening at a time when other countries, (e.g. Germany with regards to Lufthansa) are being accused of abusing state aid rules. The complex issue is the identity of the court of final appeal, but it seems probable that a system of independent arbitration panels could be set up rather than referring to the ECJ. The EU also insists on a borderless Ireland, though Michel Barnier (FT, 3 July) seemed willing to compromise on this. Security cooperation is a useful bargaining tool.

We think that it will be hard to justify why Canada, Japan or Australia has more favourable terms than the UK if there is a no-deal Brexit, and that the reasonable worst case scenario would be a Canada+ or Australia type of treaty.

The strong Conservative majority and the fact that parliamentary approval is not needed gives the Prime Minister plenty of political flexibility for negotiations.

Appendix 2: EM currencies vs fundamentals

Figure 79: EM currencies vs fundamentals



Source: Refinitiv, Credit Suisse research

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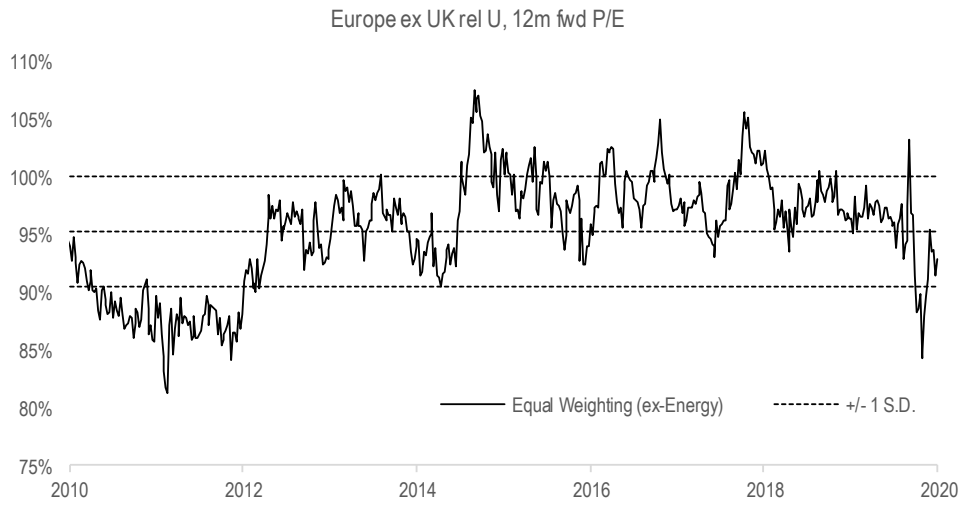
Appendix 3: Sector-adjusted P/E – Europe vs US

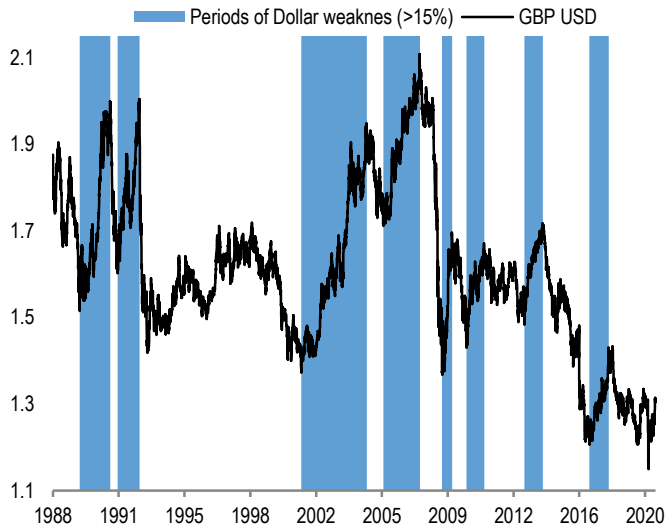
Figure 80: Sector-adjusted P/E



Source: Refinitiv, Credit Suisse research

Appendix 4: Hedged versus unhedged returns – Japan and the UK

Figure 81: Periods of sterling strength…



Source: Refinitiv, Credit Suisse research

Figure 82: are accompanied by UK stocks outperforming in USD terms

Start Date	End Date	Change in GBP USD	UK perf rel AC World (USD terms)	UK perf rel AC World (Local terms)	Duration
14-Jun-89	06-Feb-91	32.0%	31.1%	10.7%	602
02-Jul-91	02-Sep-92	25.1%	11.6%	-2.7%	428
11-Jun-01	20-Dec-04	42.0%	10.9%	-9.2%	1,288
22-Nov-05	08-Nov-07	23.2%	4.7%	-6.6%	716
23-Jan-09	05-Aug-09	24.1%	8.0%	-7.6%	194
20-May-10	28-Apr-11	16.4%	6.2%	-0.5%	343
09-Jul-13	02-Jul-14	15.8%	1.4%	-10.4%	358
11-Jan-17	25-Jan-18	18.5%	-3.1%	-13.9%	379
Average		**24.6%**	**8.8%**	**-5.0%**	**539**

Source: Refinitiv, Credit Suisse research

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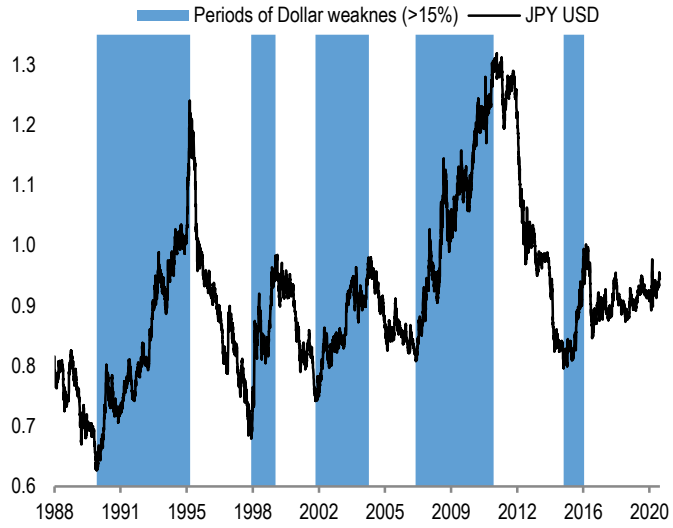
Figure 83: During periods of yen strength ….



Source: Refinitiv, Credit Suisse research

Figure 84: …Japanese equities sometimes outperform

Start Date	End Date	Change in JPY USD	Japan perf rel AC World (USD terms)	Japan perf rel AC World (Local terms)	Duration
17-Apr-90	18-Apr-95	98.0%	-8.9%	-46.9%	1,827
11-Aug-98	26-Nov-99	44.8%	38.1%	-2.1%	472
24-Jan-02	03-Dec-04	32.1%	21.1%	7.6%	1,044
18-Jun-07	19-Aug-11	61.5%	-7.8%	-38.5%	1,523
05-Jun-15	08-Jul-16	24.9%	-5.1%	-24.2%	399
Average		**52.3%**	**7.5%**	**-20.8%**	**1,053**

Source: Refinitiv, Credit Suisse research

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Companies Mentioned *(Price as of 10-Aug-2020)*

ASM International (ASMI.AS, €127.45)
Adidas AG (ADSGn.F, €255.1)
Anglo American Plc (AAL.L, 1903.6p)
Ashmore Group (ASHM.L, 422.0p)
Associated British Foods (ABF.L, 1909.0p)
Atlas Copco (ATCOa.ST, Skr395.8)
BHP Group Limited (BHPB.L, 1784.0p)
BHP Group Limited (BHP.AX, A$39.84)
BNP Paribas (BNPP.PA, €35.81)
Bodycote Plc (BOY.L, 581.0p)
Burberry Group (BRBY.L, 1350.5p)
Capgemini (CAPP.PA, €110.55)
Carlsberg (CARLb.CO, Dkr905.4)
Compagnie Financiere Richemont SA (CFR.S, SFr57.44)
Credit Agricole SA (CAGR.PA, €8.61)
DSV (DSV.CO, Dkr898.2)
Danone (DANO.PA, €54.8)
Demant (DEMANT.CO, Dkr199.5)
Dialog (DLGS.F, €40.83)
E.ON (EONGn.F, €9.952)
EasyJet (EZJ.L, 604.4p)
Electrolux (ELUXb.ST, Skr176.05)
Endeavour Mining (EDV.TO, C$34.41)
Enel (ENEI.MI, €7.87)
Epiroc (EPIRa.ST, Skr127.4)
Ericsson (ERICb.ST, Skr101.35)
Ericsson (ERIC.OQ, $11.63)
Ferrexpo Plc (FXPO.L, 198.2p)
Fluidra (FLUI.MC, €14.0)
GEA Group (G1AG.DE, €30.65)
Glencore (GLEN.L, 171.82p)
Heineken (HEIN.AS, €77.32)
Hennes & Mauritz (HMb.ST, Skr144.6)
Hermes International (HRMS.PA, €683.4)
Hugo Boss (BOSSn.F, €23.69)
Infineon Technol (IFXGn.F, €21.58)
KPN (KPN.AS, €2.15)
Kering (PRTP.PA, €482.1)
Kingfisher (KGF.L, 263.7p)
Klöckner & Co (KCOGn.DE, €5.67)
Kone Corporation (KNEBV.HE, €70.24)
LVMH (LVMH.PA, €371.55)
LafargeHolcim (LHN.S, SFr43.91)
Lanxess (LXSG.DE, €47.69)
Logitech (LOGN.S, SFr65.56)
Lufthansa (LHAG.F, €8.42)
Marks & Spencer (MKS.L, 110.3p)
Meggitt (MGGT.L, 301.5p)
Mondi (MNDI.L, 1484.5p)
Newmont (NEM.N, $67.89)
Next (NXT.L, 5800.0p)
Nokia (NOKIA.HE, €4.16)
Nokia (NOK.N, $4.91)
Novozymes (NZYMb.CO, Dkr377.8)
OceanaGold Corporation (OGC.AX, A$3.73)
Partners Group (PGHN.S, SFr889.6)
Pearson (PSON.L, 608.8p)
Persimmon (PSN.L, 2385.0p)
Puma DE (PUMG.F, €67.52)
RWE (RWEG.F, €33.72)
Rio Alto Ming (RIO.LM^F15)
Rio Alto Ming (RIO.LM^F15)
SBO (SBOE.VI, €24.1)
STMicroelectronics NV (STM.PA, €24.18)
Sage Group (SGE.L, 745.2p)
Sandvik (SAND.ST, Skr169.45)
Schindler-Holding AG (SCHP.S, SFr231.5)
Schneider Electric (SCHN.PA, €102.45)
Siltronic (WAFGn.DE, €75.52)
Snam (SRG.MI, €4.4)
Sonova Holding (SOON.S, SFr206.8)
St Barbara Mining (SBM.AX, A$3.59)
Swatch Group (UHR.S, SFr193.2)
Symrise (SY1G.DE, €110.9)
Ubisoft Entertainment SA (UBIP.PA, €68.12)
Unilever (ULVR.L, 4520.0p)
Unilever (UNA.AS, €49.46)
Vivendi (VIV.PA, €23.35)
Vodafone Group (VOD.L, 116.62p)
WPP (WPP.L, 620.6p)
Zhaojin Mining (1818.HK, HK$9.66)
Zijin Mining (2899.HK, HK$5.15)
Zijin Mining (601899.SS, Rmb6.33)

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